California Department of Health Services

Policy and Procedures Manual

A Staff Guide to Implementation of the DWSRF Program

POLICY AND PROCEDURES MANUAL

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I. TYPES OF FINANCING INCLUDING TERMS AND CONDITIONS

The SRF loan program offers several different types of financial assistance as described below. Regardless of the type of assistance requested, however, the applicant must be on the fundable portion of the project priority list. The potential applicant must also have received an invitation from the Department to submit an application.

1. Construction Loans

Construction loans make up the majority of the types of financial assistance that are offered to applicants. Eligible costs under this type of loan include all planning costs including the costs of preparing the loan application, preliminary engineering costs, cost of preparing the necessary environmental documentation, design costs, and all costs related to the actual construction. Applicants are required to cover the costs of preliminary planning etc. up front. These costs will be reimbursed, however, at the time of loan execution.

A "construction" loan does not necessarily need to involve actual construction of physical facilities. This type of loan can be used to pay the costs of consolidation with another water system, purchase of additional water capacity to augment an inadequate source, purchase of a water system etc.

The repayment period for these types of loans is up to 20 years or the life of the project whichever is shorter. The application should provide an estimate of the useful life of the key components of the project. For a project that combines several components that may have different useful life expectancies, the useful life of the most costly element of the project should be used for purposes of loan repayment. Repayments must begin within six months (actual dates will be specified in the loan contract) after the Department certifies completion of the project.

The interest rate that will be applied to these projects will be a fixed rate over the full term of the repayment period. The interest rate will be fifty percent (50%) of the State's average interest rate paid on general obligation bonds sold during the previous calendar year as determined by the State Treasurer***. Thus all loans of this type executed during any calendar year (January 1 through December 31) will all carry the same interest rate***. In other words, a different interest rate will be established for each calendar year that will apply to all loans issued in that year. Interest-only loan payments or loans with a balloon payment at the end will not be allowed. The date of the Notice of Application Acceptance determines the appropriate interest rate that will apply to the loan. If, for example, a Notice of Application Acceptance was sent to the applicant during the 1998 calendar year, the interest rate that would be applied to the loan would be the 1998 rate even though the actual loan might not be executed until 1999 or later.

The maximum loan amount that can be awarded to a single project is $20 million. The maximum amount that can be awarded to a single public water system (with multiple projects) in any one fiscal year is $30 million. The only exception to these maximums is if the Department determines that excess funds are available that cannot otherwise be obligated before the USEPA obligation deadline. This determination will be made during the last month preceding the obligation deadline. Should this determination be made, previous loan offers of $20 million per project (or $30 million per applicant) can be amended to increase that amount. Unless this occurs, an applicant for a project costing more than $20 million will need to determine a source of funding for the balance of the project cost.

2. Planning Loans

An applicant may request a planning loan in lieu of a construction loan (grants are not available for short-term planning studies). However, should a subsequent construction loan be desired, the applicant would need to submit a new application for the construction loan. ***The award of a planning loan does not guarantee that a subsequent construction loan will be offered or available***. Planning loans are generally appropriate where an applicant is unsure of the best means of solving a particular problem and cannot afford to pay the up-front costs of evaluating the problem and doing the necessary preliminary engineering to prepare a construction loan application. Any project that is awarded a planning loan will remain on the priority list and will retain its ranking until such time that a construction loan is offered.

A planning loan may be used to conduct feasibility studies, evaluate problems and potential solutions, conduct environmental evaluations and prepare CEQA/NEPA documents, explore financing methods and prepare revenue/expenditure reports, conduct all preliminary engineering, and prepare a full application for a construction loan. Eligible preliminary engineering costs include any test drilling holes for wells or bench scale testing of treatment methods. Actual design costs, construction, or purchase of equipment are not eligible costs under a planning loan. A planning loan may not be used to reimburse planning costs incurred prior to execution of the planning loan contract.

The repayment of a planning loan will commence within 6 months from the date the draft planning report is received and approved by the District Office and shall be fully repaid within five years from when the repayments begin. The Department may delay the commencement of repayment of the planning loan if the applicant has applied for a construction loan prior to the due date of the first semi-annual repayment. Should a construction loan be awarded, the planning loan and the construction loan may (at the option of the applicant) be combined into one loan with repayment beginning at the same time the repayment of the construction loan would normally commence. A planning loan that is rolled into a subsequent construction loan will carry the interest rate applicable to the construction loan. An applicant that has received a planning loan may submit an application for a construction loan at any time following District approval of the planning report and does not need to wait for an invitation from the Department. Funding,

however, will depend upon the availability of funds at the time the construction application is approved.

The interest rate that will apply to all planning loans (except those issued to disadvantaged communities which will carry a zero percent interest rate) will be the same as construction loans and will be determined at the time the planning loan contract is executed. Planning loans will not involve an initial "Notice of Application Acceptance". Approval of the application will result in the preparation and execution of an immediate loan contract.

The maximum loan amount that may be requested for a planning loan is $100,000 per project. An applicant may request separate planning loans for more than one project. To be eligible for a planning loan, however, the project must be within the fundable portion of the project priority list as determined by the Department.

All recipients of planning loans will be required to submit a draft planning report to the District Office within 18 months from the date of loan contract execution. The purpose of this is to assure that all work performed was eligible for reimbursement, the study addressed the problem adequately, and to assure that any TMF deficiencies required to be addressed as conditions of the loan were evaluated.

As indicated, there will be no grants for planning studies for disadvantaged communities. A disadvantaged community, however, may apply the amount of the planning loan to its local construction project share should a subsequent construction loan be awarded (unless the applicant chooses to roll the planning loan into the construction loan).

3. Refinancing of Existing Projects

Eligible public water systems that are owned by public agencies, that incurred indebtedness and began construction of a project after July 1, 1993 but before receiving a letter of invitation, may have any remaining outstanding debt refinanced under the SRF program. Privately owned water systems are not eligible for this refinancing pursuant to federal law. Projects requesting this refinancing must be within the fundable portion of the project priority list at the time of application and must have received an invitation to submit an application from the Department. ***Applicants should be reminded that only the remaining balance of indebtedness (e.g. bonds or loans) can be refinanced. No other costs can be refinanced or reimbursed.*** No prepayment penalties, bond counsel costs, or other administrative costs associated with the refinance are eligible for funding. Projects constructed with an applicant's own funds are not eligible. Projects that began construction after October 1, 1998 that are not eligible for reimbursement (e.g. the project is too far down on the priority list) are still eligible for refinancing when the project becomes part of the fundable list.

In addition to incurring debt as described above, the project must have met all of the eligibility requirements set forth in section 1452 of the federal SDWA. This includes a

CEQA/NEPA environmental review process and other federal cross-cutter requirements. Of particular note is the necessity for any project serving more than 1,000 service connections to have received clearance or concurrence from the State Historical Preservation Officer (SHPO) or the U.S. Fish and Wildlife Service (USFWS). In most cases where there has been no federal involvement, the SHPO will not have provided cultural resources clearance and the USFWS will not have provided endangered species clearance for a project that has already been constructed. Furthermore, it would be a procedural violation for the SHPO to retroactively provide cultural resources clearance on an undertaking for which construction had already commenced. Likewise, it would be a procedural violation for USFWS to retroactively concur with a finding of "not likely to adversely affect" a federally listed species for a project that had started construction.

Only project components that meet current eligibility criteria (such as the growth restriction) would be refinanced. If the project is deemed to be partially eligible, the remaining outstanding indebtedness that would be refinanced would be pro-rated. Projects that were previously funded by loans from prior State bond act funds are eligible for refinancing. Due to tax implications, applicants for refinancing must have a tax attorney or bond counsel certify that the refinancing does not conflict with federal law (arbitrage etc).

Loan maximums and interest rates are determined in the same manner as construction loans. Similar to planning loans, a Notice of Application Acceptance will not normally be issued but a final loan contract will be prepared and executed upon approval of an application requesting refinancing. The repayment period shall not exceed (1) the remaining repayment period of the existing indebtedness; (2) the remaining useful life of the project; or (3) 20 years from the date of execution of the loan contract; whichever is shorter. Loan repayments shall commence upon the nearest semi-annual repayment cycle following the loan contract execution.

4. Reimbursement

The purpose of reimbursement is to allow some projects to initiate construction prior to receiving and executing a loan contract with the Department. This may allow these systems to comply with compliance schedules or to take advantage of seasonal construction opportunities. Reimbursement of previous construction costs is different than refinancing. Refinancing, as described in the previous section, is limited to projects constructed after July 1, 1993 but before receiving a letter of invitation. Under a refinancing loan, only the ***remaining balance*** of a debt obligation of a public agency can be refinanced. Reimbursement differs in two important respects. First ***all*** costs incurred with respect to the project can be fully reimbursed and second, both publicly-owned as well as privately-owned water systems are eligible. Reimbursement, however, is limited to projects constructed after October 1, 1998 (planning and design costs can be incurred at any time) and that meet the requirements described below.

a. ***To be eligible for reimbursement, a water system must have received a letter of invitation from the Department to submit a project application***. This invitation must be received by the water system prior to initiation of actual construction. Initiation of construction means that actual physical work (such as grading or digging) has begun at the work or project site.

b. Projects that apply for reimbursement must comply, or have complied, with all SRF funding requirements including applicable federal cross-cutters. A stated inability to comply with any of these requirements because contracts (for example) have already been executed or construction already underway is not acceptable.

Reimbursement is not available for planning-only applications or projects. The reimbursement loan must also include construction funds. Reimbursement, however, can be limited to portions of a project. For example, if an applicant only wishes to have a reimbursement loan for a portion of the construction costs, this is allowable. Eligible costs that can be reimbursed include all of the costs described in Section 63010 of the SRF regulations. The costs of obtaining interim financing are also eligible for reimbursement.

The type of financing used by the applicant to initiate construction is irrelevant and may consist of use of internal funds, short-term debt obligations, etc. Short-term interim financing (sometimes referred to as "bridge loans") should generally not exceed two years.

All reimbursement loans or grants are subject to the same terms and limitations as normal construction loans. If the applicant is a disadvantaged community, the potential for grant funds will be determined in the same manner as a new construction project.

A project that has been by-passed pursuant to Section 63030 of the SRF regulations is not eligible for reimbursement (even though they may have previously received a letter of invitation) unless a new and current letter of invitation has been received from the Department. For example, if a project was by-passed because an applicant failed to return a Statement of Intent and that water system initiated construction before a new letter of invitation was received the following year, that project would be ineligible.

Regardless of when an applicant begins construction after receiving the letter of invitation, the applicant should submit a full project application to the Department before the letters of invitation for the next funding cycle are sent out. Failure to submit the application within this time period could result in the project being by-passed and thus becoming ineligible.

The District Office, upon receiving an application from a water system where construction has already started should process the application in the same manner and apply the same criteria as any other project application. Review of plans and specifications, as well as construction bids where applicable, will be conducted in a

similar manner. Applicants who intend to proceed with construction and seek reimbursement should be made aware of this fact. ***Applicants should be forewarned of the desirability of making sure that they comply with eligibility criteria, environmental documents and procedures, and federal cross-cutters (where applicable) if they want to be reasonable assured of reimbursement approval later.*** Although not required, Districts should encourage applicants to consult with the District Office regarding project design, growth and other eligibility restrictions, and environmental considerations early in the process. At their discretion, the applicant may also want to have the District review plans and specifications before entering into construction contracts.

5. Local Match Projects

Although not included in the federal act, California law allows a local agency to provide the required 20% State matching funds in lieu of the State. In return, the local agency would receive a loan with a zero interest rate. ***Only publicly owned community water systems are eligible for this option.*** In addition, local matching options are available only for projects that are $5,000,000 or more in total eligible project costs. In all other respects, these projects are the same as normal long-term construction loans.

An eligible applicant seeking this option would need to include with the application, a resolution from the governing body pledging the local funds. The local match funds must be deposited into the State revolving fund pursuant to a schedule that coincides with the disbursements of loan funds to the applicant. A disbursement from the SRF fund will not be made until the local share has been received and deposited. The applicant would then receive a loan for the amount of the total eligible cost of the project. Since the State funding is reduced, the maximum total amount of the loan for this type of project is $25 million ($20 million State funding and $5 million local). Repayment to the State would be for the total amount of the loan (including the local match portion). For example, if the total eligible project cost were $10,000,000, the local matching share would be $2,000,000, which would be deposited into the State revolving fund. The SRF would then loan $10,000,000 to the applicant at zero percent interest. Repayment to the State revolving fund from the applicant would be in the amount of $10,000,000.

The interest rate for this type of project as stated above is zero percent. The repayment period would be the same as any normal long-term construction loan.

6. Disadvantaged Community Assistance

Disadvantaged communities are defined in section 63000.25 of the California Code of Regulations. Basically these are communities whose current median household income (MHI) is at or below 65% of the current statewide MHI. An applicant that meets the criteria for a disadvantaged community may apply for any of the three types of financial assistance described previously (the local match option would not be applicable). All of the terms and conditions expressed in the previous sections apply with the exception of

the interest rate and the length of repayment. The MHI that will be used to establish disadvantaged community status will be determined by DWR (and their financial consultant) based on the service area of the water system as determined by the District.

All disadvantaged communities are eligible for a zero interest rate loan instead of the 50% subsidized loan rate. In addition, the loan repayment period may be extended to 30 years (at the Department's discretion) provided the useful life of the project is not exceeded. A disadvantaged community may also receive a partial forgiveness of the loan principal to offset some of the cost of the proposed project. This would only be the case, however, if the disadvantaged community could not afford to repay the zero interest rate loan. ***Grants or forgiveness of loan principle will only apply to new construction and will not apply to refinancing of existing projects or to planning studies.***

In addition to the statutory $1,000,000 maximum grant amount per project, the maximum amount of grant funds available for a single project may not exceed the percentages shown below based on the priority category of the project on the project priority list:

Priority categories A through G (high priority)	=	80% of total project cost
Priority categories H through L (medium priority)	=	65% of total project cost
Priority categories M through O) (lower priority)	=	50% of total project cost

In order to assure effective use of public grant funds, a maximum of $10,000 of grant funds will be allowed per service connection served by the water system. In addition, the total amount of grant funds that a single public water system (that has multiple projects on the priority list) may receive in any fiscal year is $1,000,000. Projects that have a total eligible project cost in excess of the grant maximums may receive a zero interest loan for the balance of the cost of the project.

As described under the definition of a disadvantaged community, the water system for which the project is being constructed must be owned by a public agency. This does not mean, however, that the applicant water system must be a "community" water system. A publicly owned nonprofit non-community water system (such as a rural school) can be considered to be a disadvantaged community if more than 50% of the users of the system reside in a community that meets the criteria for a disadvantaged community. This use would have to be demonstrated by the applicant.

Other than establishing the service area to be used for determining the MHI, the District plays no role in determining whether or not a grant will be offered. Project applications received by the District from obvious disadvantaged communities will be processed like any other application.

7. Source Water Protection Petition Projects

Public water systems may apply for a loan for projects that will protect sources of water supply. Funds will be set-aside from the capitalization grant to fund these projects. The amount of funding to be set-aside for the Source Water Protection Program (SWPP) will likely vary from year-to-year and will be specified in the annual Intended Use Plan. The ranking of projects based on submitted pre-applications and the processing of applications will be done by the Districts in a manner similar to regular SRF construction projects. No grant funding is available for source water protection projects. A separate application form will be used for source water protection projects. For purposes of processing source water protection projects, these applications shall be considered to be "petitions" as identified in the federal act.

All protection project loans will carry the same interest rate as SRF construction loans and are limited to a maximum of $2,000,000 per project. An applicant may not receive an aggregate total of more than $3,000,000 from any one federal funding allocation for SWPP projects.

The amount of set-aside funding for SWPP projects will be determined by comparing the total funding demand in high priority, medium priority, and low priority categories for each priority list and prorating the total amount of funding available between the two programs.

II. PROJECT PRIORITY LIST

1. Pre-applications

Pre-applications are the means by which a water system can request that a project be placed on the Project Priority List. The pre-application is a one-page form provided by the Department. The information that is presented on the pre-application is the basis upon which the project is ranked. A water system may submit more than one pre-application provided each pre-application addresses a separate problem. Multiple problems should not be combined into one pre-application since each problem may need to be ranked in a different category.

It is the Department's intention to submit the annual capitalization grant application to EPA around March or April of each calendar year. Therefore, requests for submission of pre-applications will generally be sent out to water systems in July of each calendar year. The deadline for submittal of the pre-applications to the Department will normally be 3 months after the pre-application requests have been sent out. Water systems may submit a pre-application at any time and do not necessarily have to wait until they receive the Department's notice. However, regardless of when they are received, the Department will not act upon them until after the deadline for receipt has passed. Requests for pre-

applications for SWPP projects will be sent out separately and at a later time than the SRF pre-application requests.

Projects that are already on the priority list do not need to resubmit a pre-application. New projects will be merged with the existing priority list in the appropriate ranking order based on the priority ranking criteria. A project on the priority list should submit a new pre-application requesting a new ranking evaluation if its circumstances have changed such that the projects present ranking may be affected. A water system that does not seek a new ranking for its projects but wishes to change some of the information on the current priority list (such as the funding year desired or the estimated cost of the project) may submit a new pre-application or simply inform the District Office in writing. Changes in funding year will only be made when adopting a new priority list. It is anticipated that the draft priority list will be completed by December 1 and one or more public hearings held in January of the following year.

The Department does not have the authority to add a project to the priority list even under an emergency. Except when a proposed project is broken into more than one project by the District, projects can only be added to the priority list as part of the annual public hearing and adoption process. The Department, however, does have the authority to change the ranking of any project on the priority list if information becomes available that was not available at the time the list was created. Any public water system whose circumstances have changed since the adoption of the list such that the project would warrant a higher ranking should notify the Department and present appropriate documentation to the District Office. Similarly, if the District Office becomes aware of new violations, they should contact the water system to discuss the possibility of re-ranking the project. During the pre-application review process, the District should review existing projects on the project priority list to see if any changes are needed.

Pre-applications may be filled out by anyone familiar with the water system including Department staff, LPA staff, consulting engineers etc. ***However, each pre-application must be signed by a responsible person with the authority to represent the system***. The Department and LPA staff should be aware of systems that may be experiencing problems and make every effort to get those system on the priority list. At the request of the system, District staff should assist the water system in filling out the pre-application form. There is no limit as to the number of pre-applications that a water system can submit. ***Staff should remember, however, that each problem can only have one pre-application***.

If several water systems are contemplating construction of a regional project to address their problems, each of the involved systems should submit a pre-application. These pre-applications can be combined later into one project loan application (see discussion under "consolidation"). This method provides maximum flexibility for the water systems and simplifies the ranking process.

2. SRF Project Priority Ranking Criteria

a. Ranking Categories

The following are brief descriptions of the priority ranking categories that have been established by the Department. Appendix A provides a detailed description of the categories and the documentation that may be needed to demonstrate a specific problem.

Category	Description
A.	Demonstrated illness attributable to the water system or a system under court ordered compliance.
B.	Microbial contamination of the water supply resulting in a repeated coliform bacteria maximum contaminant level (MCL) violation.
C.	Unfiltered surface water or wells that have fecal or E.coli contamination.
D.	Filtered surface water or wells that have fecal or E.coli contamination.
E.	Insufficient water source capacity resulting in water outages.
F.	Nitrate/nitrite contamination exceeding the MCL and Total Coliform Rule violations.
G.	Chemical contamination (other than nitrate/nitrite) exceeding a primary MCL.
H.	Uncovered distribution reservoirs and low-head lines.
I.	Systems meeting existing MCLs but not the proposed microbial MCLs or proposed microbial treatment standards or the California Cryptosporidium Action Plan.
J.	Significant sanitary defects involving sewage.
K.	Disinfection facilities that have defects.
L.	Systems meeting existing MCLs but not proposed non-microbial MCLs.
M.	Other waterworks standards defects.
N.	Iron and/or manganese violations.

O. Other water systems deficiencies

In general, the Department considers priority categories A through G to be high priority, categories H through K to be medium priority and categories L through O to be low priority. This will help guide the Department in planning and establishing funding goals and objectives.

b. Bonus Ranking Points for Affordability

Bonus points are used only in ranking projects within a category, and it is important to keep in mind that the addition of bonus points will not move a project from one category to another. This point is stressed simply to emphasize that the category in which a project is placed is much more important, for funding concerns, than is the assignment of bonus points. To the extent feasible, the Department will try to fund whole categories.

Affordability is a new factor that was not a criterion during administration of the previous drinking water bond acts. The criteria used by the Department compares the median household income (MHI) level of the community served by the proposed project to the statewide median household income level. Communities that are below the statewide median household income level receive additional ranking consideration. This gives poor communities a higher ranking within a category than communities with higher income levels. Additional affordability ranking points will be granted as follows:

MHI of Service Area	Ranking Points
Greater than the statewide MHI	0
90%-100% of statewide MHI	5
80%-89% of statewide MHI	10
70%-79% of statewide MHI	15
60%-69% of statewide MHI	20
less than 60% of statewide MHI	25

c. Consolidation Bonus Points

For purposes of ranking projects with a category, any project that includes consolidation of separate existing water systems will receive additional ranking points. Twenty points will be awarded for a physical consolidation of two or more systems and 10 points will be awarded for new consolidation of ownership and/or management (no physical consolidation) of two or more systems. The purpose of assigning consolidation points is to promote reliability, efficiency, and economy of scale that can be achieved with larger water systems while discouraging the proliferation of numerous separate small systems with their inherent inefficiencies and limitations. This is consistent with the legislative intent expressed in California Health and Safety Code Section 116760.10(g).

If consolidation is only a possibility and it is not known for certain whether this will occur or not, staff should not assign any consolidation bonus points.

d. Type of System

Because there is a relatively higher health risk associated with persons who drink the same water each day over a period of time (accumulated exposure), community and nontransient noncommunity water systems will be ranked above transient noncommunity systems within a category.

e. Population

Awarding additional ranking points for affordability and consolidation only affects the ranking of a project within a category and will not result in a project being elevated to a higher category. All projects (with consideration for the type of system as described above) within a category that have the same number of ranking points will be ranked in ascending order based on the population served by the water system with smaller populations ranked above higher populations. This allows smaller communities that have a more difficult time obtaining financing an opportunity to compete with much larger systems for available state financing.

3. SWPP Project Ranking Criteria

The following categories are used for ranking SWPP projects:

Category	Description
A.	Source water protection projects that address microbial contaminants associated with PCAs located in Zone A of a SWP area for a ground water source.

B. Source water protection projects that address microbial contaminants associated with PCAs located in Zone A of a SWP area for a surface water source.

C. Source water protection projects that address microbial contaminants associated with PCAs located in Zone B of a SWP area for a surface water source.

D. Source water protection projects that address nitrate associated with PCAs located in Zone A for a ground water source.

E. Source water protection projects that address nitrate associated with PCAs located in Zones B5 and B10 and/or a recharge area for a ground water source.

F. Source water protection projects that address disinfection byproducts and/or chemicals associated with PCAs located in Zones A and/or B5 for a ground water source.

G. Source water protection projects that address disinfection byproducts and/or chemicals associated with PCAs located in Zones A and/or B for a surface water source if zones have been established.

H. Source water protection projects that address microbial contaminants associated with PCAs in the watershed of a surface water source.

I. Source water protection projects that address microbial contaminants associated with PCAs in the recharge area of a ground water source.

J. Source water protection projects that address disinfection byproducts and/or chemicals associated with PCAs in the recharge area of a ground water source.

K. Source water protection projects that address disinfection byproducts and/or chemicals associated with PCAs in Zone B10 of a ground water source.

L. Source water protection projects that address microbial contaminants associated with PCAs in Zone B5 and/or B10 for a ground water source.

M. Source water protection projects that address microbial contaminants associated with PCAs in the buffer zone of a ground water source.

N. Source water protection projects that address nitrates associated with PCAs in the buffer zone of a ground water source.

O. Source water protection projects that address disinfection byproducts and/or chemicals associated with PCAs in the buffer zone of a ground water source.

P. Source water protection projects that address disinfection byproducts and/or chemicals associated with PCAs in the watershed of a surface water source.

SWPP projects will be ranked within a category based on the total number of bonus points awarded by the Department using the following criteria:

1. A water system with a source water assessment completed in accordance with the California Source Water Assessment and Protection Program will be awarded 4 bonus points.

2. A water system that has organized a local task force or work group to develop and implement a source water protection program will be awarded 2 bonus points.

3. A water system that has developed a source water protection program that identifies possible management measures will be awarded 2 bonus points.

4. If the contamination from the PCA(s) that the project proposes to address has been released and the direction of movement is toward the drinking water source, the water system will be awarded 3 bonus points.

Projects in the same category that have the same number of bonus points will be ranked in accordance with the following:

1. Community and nontransient-noncommunity water system projects will be ranked above transient noncommunity water system projects.

2. Projects that are proposed by the same type of water system will be ranked in ascending order (smaller populations above higher populations) by the number of persons served.

4. Ranking of Pre-applications

The review and ranking of pre-applications will commence as soon as the deadline for submission of pre-applications has passed. The review and ranking process will follow the flow chart shown in Figure 1. The first step in the process is to determine if the pre-application is complete. Basically this means the following:

- Are all the blanks filled out?
- Is the problem adequately described?
- Is the required documentation included?
- Is the form signed by an authorized person representing the water system?

If the form is incomplete, District staff should contact the system and acquire the necessary information.

Several things need to be addressed during the review of the completed pre-application. The first item is the water system's eligibility. This is generally obvious for most systems since all community water systems are eligible. However, of the noncommunity systems, only nonprofit non-community systems are eligible. This may be difficult to readily determine. Nonprofit status means that the applicant has an Internal Revenue Service nonprofit identification number. Unless the ownership of the system appears questionable (e.g. a mobile home park, resort, marina or other stated ownership that in most cases is conducted for profit), District staff should accept the certification of the applicant. Final eligibility will be determined during the submission and review of the full application. When the requests for the full application are sent out, the system will be forewarned about this. If they want to possibly save some unnecessary work, they might want to verify their eligibility before completing the full application. If a system claims community water system status, this claim should be consistent with the system's classification as shown on the water system permit. For noncommunity systems, staff should remember that it is the owner of the system, not the system itself, which must be non-profit.

The documentation and the District staff personal knowledge should verify the problem claimed by the applicant. A problem does not exist simply because the applicant thinks he has a problem. The necessary criteria and required documentation are spelled out in the Intended Use Plan (IUP). In reviewing the pre-application and determining the appropriate ranking, staff should use the criteria as spelled out in the IUP. If necessary, staff may need to do a field visit to the system to verify the problem.

If the District becomes aware that a project has been misranked prior to the sending of an invitation to submit a loan application, the District should notify Headquarters and correct the ranking. If the letter of invitation has already been sent out (for example, if the error was discovered during review of the full application), the project will be denied and reranked only if the applicant deliberately misled the Department.

If the applicant has identified several problems that need correction in the same pre-application for which they would like SRF funding, staff should separate the pre-application into individual projects with problems ranked as appropriate. If the problems (when ranked separately) fall within the same priority class, or within classes that would likely still be within the fundable portion of the priority list, they can be combined into one loan application at the time of loan submission.

Conversely, some applicants may have separated an individual problem into more than one project for the purposes of increasing the potential amount of funding to the system. Again, staff should look at this carefully and, if appropriate, combine the pre-applications into one pre-application (with the knowledge of the water system). As a reminder, the definition of a project includes *all* of the construction-related activities needed to solve a

specific problem. ***Therefore, a problem can only involve one project and there can only be one pre-application for that project***. Districts should notify water systems of their action if any combining or separating is done.

Once the pre-application has been combined or separated as appropriate and has been ranked into the appropriate priority class, other factors need to be applied to determine the ranking of the project within its category. In determining the bonus points to be awarded for affordability, staff should establish an appropriate MHI for the water system. The MHI should reflect the *entire* service area of the water system, not just the area that will be affected by or benefit from the proposed project. This can be based on zip codes or other means as available to the District. The zip code of the mailing address or headquarters of the water system may not represent the entire service area. For non-community water systems, the MHI should be that of the community that is served by the water system (the community from which at least 50% of the users of the system are derived). If this is not readily apparent, the MHI of the county in which the water system is located should be used. The District may wish to consult with DWR regarding appropriate MHIs to be used.

The MHI bonus points only have any impact if the bottom of the fundable portion of the list falls in the middle of a category. It is not necessary to assign bonus points to project in categories that are known to be fully within the fundable portion of the list since all of these projects will be invited to submit full applications anyway. Similarly, it is not necessary to assign bonus points to projects in categories that will not be reachable during the upcoming funding cycle. This will, however, need to be done at the time the fundable portion of the list gets to the point where these categories may be affected.

The pre-application ranking process is the ideal time for the District to carefully review the existing or previous priority list and determine if changes in current project rankings should be made. For example, if a project is currently ranked based on a problem that no longer exists, the project should either be deleted from the list or reranked to a lower category. This is also a good time to separate or combine existing pre-application projects if this was not done at the time of the initial ranking.

5. Multiyear Project Priority List

Following review and ranking of the pre-applications by the Districts and entering of the data into the database, the draft multiyear project priority list will be created. The Districts will have the opportunity to review the draft list and make any necessary changes before announcement of the public hearing. Once the public hearing notice has been sent out, no additional ranking changes will be made until the hearing(s) is completed. Districts can recommend additional changes at the hearing if necessary. Once all of the final post-hearing changes have been made, the priority list will be submitted to the Director for final adoption.

As indicated earlier, modifications to a project's ranking may be made following adoption if ***new*** information becomes available. Should this occur, the District should make a written recommendation citing the circumstances to Headquarters and recommend the new ranking that should be established for the project. Headquarters will enter the information into the database and revise the existing priority list. The District will then notify the appropriate water system of the revised project ranking. Headquarters will officially record all changes and notify EPA as needed. If the re-ranking results in the project being added to an existing fundable list, a letter of invitation will be immediately sent to the water system.

As soon as a new priority list is officially adopted, it will be given a fiscal year designation based on the year of the capitalization grant application. For example, if the priority list is being submitted to EPA in March 1999 for the federal 1998 capitalization grant, the list will be designated as the 1998 project priority list. The new project priority list will replace the current (the 1998 list in this example) on the date that the new capitalization grant award is made by the EPA**.** ***Projects will remain on the project priority list until an initial loan commitment (not including planning loans) has been executed, the water system ceases to exist or becomes ineligible, the problem (upon which the ranking was based) has disappeared, or the water system requests that the project be deleted.***

The multiyear project priority list is the master project priority list and will include all projects for which a pre-application was submitted and approved. This will include projects that do not desire to receive funding until later years. The multiyear project priority list will be divided into two groupings, the SRF project group and the SWPP project group. Each of these groups will use the appropriate ranking criteria. From the master multiyear project priority list, several working lists will be created. These will include the current year fundable project lists (for both SRF and SWPP projects), a water system loan invitation list, and a small water system reserve list.

6. Determination of the Fundable Portion of the Project Priority List

Before creating the fundable portion of the priority list for the current funding cycle, the Department will determine the amount of money available. This will be based on the current capitalization grant award minus any set-aside funds, the 20% State matching funds, interest earned by funds in the account, and the amount of money received from repayments of earlier loans. The status of unobligated funds from the prior year, based on the project pipeline reports, may increase the amount of money available for establishing the fundable portion of the new priority list. Conversely, project applications that have been approved but not awarded due to lack of funds may decrease the amount of funding available.

The estimated amount of money available will be compared to the estimated cost of projects on the priority list that have indicated a readiness to proceed in the current funding year. Projects that have indicated the desire for a later funding year will be by-

passed and will not be included in the fundable project list for the current year. In addition, projects that have already submitted a project funding application will be excluded from the proposed fundable list. In using the project estimated costs, projects will be subjected to the loan maximums described in section I. The fundable list will consist of those projects whose cost estimates (as adjusted) total up to the amount of funding estimated to be available. The cost estimates shown on the priority list will be decreased by 25% in determining the fundable list because experience has shown that, on the average, these estimates are high by approximately this amount.

In determining the application invitation list, the Department will calculate the amount of the proposed small water system (SWS) reserve which will be initially set at 15% (or more) of the amount of money available as described above. The Department will initially apply this 15% to a list of projects that serve less than 10,000 persons and that have indicated a readiness to proceed. The SWS fundable list will include those SWS (in priority list order) that fall above the line drawn at the point where the available funding equals the aggregate estimated project costs. In establishing a small system invitation list, the Department will initially apply an approximate 200% additional dropout factor to allow leeway for projects that do not proceed with the submittal of a full application by the deadline. For example, if the 15% reserve were $10,000,000, the amount of $30,000,000 would be used to establish the initial bottom line of the proposed small system invitation list. If, as expected, the bottom of this funding line falls within a particular category, the Department may extend the small system reserve to include that entire category provided the amount of expected actual project funding (after anticipated dropouts) needed does not exceed 25% of the total amount available. All small water system projects that fall above this funding line will make up the proposed small system invitation list for the fiscal funding year.

After the above small system amount is determined, it will be subtracted from the total amount available. This amount will then be used to determine the large water system proposed fundable list. The same procedure as described above will be used except that in establishing the invitation list, the anticipated dropout rate will be only an additional 50%. This dropout factor may be adjusted slightly if necessary to fund an entire category. Large water systems that fall above this line on the priority list will constitute the large water system proposed invitation portion of the list. It is anticipated that it may be necessary to extend the small system fundable list to a lower point on the priority list than the large water system cutoff in order to use up the minimum 15% small system reserve required by federal law. The fundable list will be revised periodically to eliminate or by-pass systems that are not ready to proceed.

7. Project By-pass Procedures

From time to time, it may be necessary to by-pass a project that is not yet ready to proceed in order to fund a project lower on the priority list. This is essential to meet the federal funding obligation deadlines and avoid loss of funds. However, projects will only be by-passed under one or more of the following conditions:

- The applicant has indicated on the pre-application form that they do not desire or will not be able to receive funding in the current funding year. This project will be by-passed automatically when the fundable portion of the list is established for the current funding cycle. These projects will be included in the fundable portion of the list (assuming they are high enough on the list) in the year they have designated.

- An applicant fails to return the Statement of Intent or indicates on the Statement that they are not ready to submit an application at this time.

- A project that has received an invitation from the Department to submit a full application has subsequently notified the Department that they do not wish to submit an application at this time or has failed to return the Statement of Intent by the designated deadline. This project will receive another invitation during the next funding cycle.

- The applicant fails to submit the full application by the target date established by the Department (typically, this will be around December 1st of each calendar year). In this case, however, the by-pass is only temporary and the project does not have to wait until the next funding cycle. The applicant may still submit the application after the target date, but funding will be dependent upon the availability of funds at the time the application is approved. Given the fact that the Department will be processing funds from more than one funding allocation simultaneously, no project is expected to be delayed as a result of missing a target date. Worst case would be that the funding would not occur until the next funding cycle.

- A full application is rejected by the Department and a revised application cannot or will not be resubmitted within the obligation deadlines established by the Department. Examples for rejection include (1) determinations of eligibility, (2) the project selected is not the most cost-effective solution, (3) the applicant cannot afford to repay the loan, (4) the applicant does not have adequate TMF capability, or (5) the applicant has not complied with all of the application requirements.

- The applicant fails to submit plans and specifications for the project (or meet other Notice of Application Acceptance requirements) by the deadline established by the Department and the initial loan offer (commitment) is withdrawn.

- The applicant has reached the $30,000,000 annual per-applicant loan maximum for projects on the fundable list. All other projects for the applicant that would exceed the maximum will be by-passed for that year.

Applicants whose projects are, or will be, by-passed will be notified. ***Any project that is by-passed for any reason will retain its position on the current priority list and will be eligible for potential funding in the following fiscal year.***

III. PROJECT PRIORITY LIST MANAGEMENT

1. Submission of Full Applications

When the project priority list and the fundable portions of the list have been adopted, they will be submitted to EPA as part of the annual capitalization grant application. Immediately following the adoption of the new project priority list, invitations will be sent to all projects on the fundable portion of the list and the extended invitation list. This is expected to take place in April of each year. Invitations will not be sent to any water system projects that have been by-passed for that year. Water systems that have multiple projects on the fundable list that exceed in total the $30,000,000 loan maximum will be sent a single invitation and will be asked to designate which projects will submit full applications in order to stay within the maximum.

The invitation letter will include an attached "Statement of Intent" that applicants will need to sign and return to the Department of Water Resources within 30 days. This statement will indicate whether or not the applicant intends to apply for funding during the current funding cycle. In addition to providing proof of receipt, the statement will require the water system to confirm its intention to submit a full application or request bypassing of the project for the current funding cycle. The Statement of Intent will be returned to Headquarters where it will be entered into the database and then sent to the District to be placed into the official project file. The full project applications will be sent from the applicant directly to the District Office. All applicants that return a statement signifying their intent to submit an application will be sent an application package.

Each application package will consist of several parts in addition to the cover transmittal letter. These packages will be sent from DHS headquarters using the addresses on the pre-application forms. Districts will be notified when these are sent out. Each package will include an application form and instructions as to how to fill out the form, a copy of the SRF regulations, CEQA/NEPA guidance material, and a TMF Assessment Form. Small systems will also receive information regarding possible assistance in preparing the application. An application package will normally be sent for each project on the project invitation list. Therefore, a water system with multiple projects may receive several packages. ***A separate application must be submitted for each project unless otherwise approved by the Department.***

Whereas projects cannot be combined under one pre-application, a loan application can combine more than one project under certain circumstances. An applicant can request

this but it is the Districts' discretion and decision as to whether it will be allowed or not. Districts should consider granting a request to combine projects if: (1) all of the projects have received a letter of invitation; and (2) all of the projects are for the same water system (a multi-system owner cannot combine projects involving more than one water system unless they are going to be physically consolidated).

Some water systems that expect to be on the fundable portion of the forthcoming project priority list may wish to get started on the application before receiving an invitation from the Department. In this case, the water system may get a copy of an application form and instructions used for the prior year. It is possible that these may change somewhat from year to year and the water system should be so advised. The water system will still receive a formal invitation at the appropriate time and will need to return the acknowledgment letter.

Only those projects that have received an invitation from the Department to submit an application are eligible to do so. If the District should receive an application from any other water system it should first contact headquarters to verify its status and then notify the water system that its application will not be processed at this time. Project applications for SWPP projects will follow the same procedures outlined in this section.

In some cases, particularly those involving a consolidation or a takeover, it may be confusing as to which system should submit the application. ***In all cases, it should be the system that has the problem that was ranked on the priority list that should submit the application.*** For example, even though water system X has a problem that will be solved by physical consolidation with water system Y, water system X must be the applicant although they can have water system Y do all of the work of putting the application together. ***A water system cannot, in most cases, submit an application on behalf of another water system***. The only exception to this rule is in regards to constructed conveyances where water mains from an existing public water system will be extended out to serve consumers currently using the constructed conveyance as a domestic water source. In this instance, either the owner of the constructed conveyance or the public water system that will be extending the water mains to serve the constructed conveyance consumers may be the applicant. This exclusion shall only apply if the removal of such consumers from a canal or ditch system is part of an overall plan for removing such consumers from the canal or ditch system.

2. Application Targets and Deadlines

In order to assure that California can meet the obligation deadlines established by EPA it is necessary that full applications be submitted and processed in a timely fashion. For this reason, the Department may establish application submittal deadlines or target dates. In most years, this target date will be December 1. Failure to submit an application by the target date established by the Department does not disqualify a project from funding consideration. If a project application is not received by the target date, it simply means

that the Department will start funding projects farther down on the project priority list. A water system can, and should, still submit the application after the target date imposed by the Department but there is no guarantee that the system will receive funding from the current funding cycle and the application may be held until the following year's funds are available. This should not delay any project since the Department will be processing multiple funding years simultaneously. In worst cases, however, this should only result in a funding delay of a few months.

With respect to small water system projects that are on the small water system reserve-funding list, adherence to the target dates is also important. While the Department will make every effort to use up the reserve by processing small system applications, at some point any balance remaining in the reserve will be released to large systems in order to avoid loss of those funds. Generally small systems will have at least 3 additional months beyond the target date for large systems to submit their applications before the small system reserve will be released. Small system project applications received after the target dates, therefore, may not be funded until the next funding cycle.

Due to the current schedule for availability of state matching funds, deadlines for submittal of loan applications are very short (generally in the order of 6-9 months). As pointed out earlier, however, invitations will be sent to a larger group of potential applicants then those on the fundable list. Projects on the fundable list will be processed on a first come first served basis. Therefore, it is possible that project applications that have been received and processed may be held until the next funding cycle if the current year funds have been fully allocated and the following years funds have not yet been received. ***In order to be assured of the earliest possible funding, projects should complete and submit their applications as soon as possible.***

The actual processing time for review of full applications will obviously vary depending on the project's complexity, the type of assistance requested, and the financial status of the applicant. Completion of the technical review of the application, however, should be completed as soon as possible and within a maximum of 150 calendar days from the time the application is considered to be complete. The financial analysis will be conducted in parallel and will be completed during the same 150 days. Allowing up to 30 days for the determination of completeness, 30 days for review and decision regarding funding, and 30 days for loan commitment execution means that the ***maximum*** total processing time will be approximately 8 months. To the extent feasible, projects should be processed in a lesser time.

Headquarters staff will closely monitor the submission and processing of applications. ***A project application will be considered to be "in the pipeline" as soon as the District has reviewed the application and determined it to be complete***. The goal is to assure that there are enough projects in the pipeline to use up the current funding allocation (with a few extra projects as a safety factor). Districts will be expected to contact any applicants that have not yet submitted the application by key target dates to determine progress and warn of the deadline. If, at that point, it is clear that the system will not be able to meet

the deadline, headquarters should be advised so that additional invitations can be sent out if necessary.

After the responses to the initial invitations have been received, headquarters will make a determination, based on the pipeline status, as to the need to send out additional invitations to projects further down the priority list (extend the invitation list). If this is determined to be necessary, projects will be invited in the order they appear on the priority list, whether large or small, until an adequate number of potential projects have been reached. These additional projects will have up to six months to submit applications for funding from the current funding year. ***The goal is to assure that there are enough projects in the pipeline at all times to use up each year's funding allocation before the obligation deadline***. To do this, some projects will, of necessity, be funded out of priority list order on a "readiness-to-proceed" basis. Districts do not have to be concerned about funding order or which projects fall under any particular fiscal funding year. This will be the responsibility of headquarters staff. Districts should simply process project applications in the order they are received in the District Office. Only applications received in response to an invitation sent out by the Department will be processed.

In a few cases, Districts and DWR may receive several applications from a single applicant at the same time. Should this occur, the District will designate the order in which the projects should be funded. New construction projects should receive a higher priority that refinancing projects. In other cases, the funding priority should be based on the importance of the project in terms of health risk. In other words, projects in higher-ranking categories should be funded before lower ranked categories. If the category is the same for all of the projects, the District should designate the funding order based on its judgment of importance.

3. Federal Cross-cutting Authorities

There are numerous federal laws and executive orders that apply by their own terms to projects receiving federal financial assistance, even though that assistance may be administered by the State. Examples of these (the complete list is included in Appendix B) include the National Historic Preservation Act, Wild and Scenic Rivers Act, Equal Employment Opportunity executive orders, Women's and Minority Business Enterprise, and the Endangered Species Act. As the funding administering agency, the Department has the responsibility to assure that applicants adhere to the requirements of these crosscutting laws and orders.

The federal crosscutting requirements, however, only apply to federal funds and do not apply to other sources of money in the Fund such as the State matching dollars, interest earned, and loan repayments. In order to take advantage of the dollar equivalency allowed by the USEPA and to minimize the impact of these requirements on smaller systems, the Department will attempt to exempt projects submitted by water systems that serve less than 1,000 service connections (including non-community systems) and projects submitted by disadvantaged communities from the federal cross-cutting

requirements. The amount of project funding represented by these systems should be below the amount of funding from the State match. Based on the make-up of the project priority list, it may be necessary to lower this exemption cutoff or to utilize a different method to determine systems receiving the exemption. Any excess credit (created by projects subject to the cross-cutters whose cumulative funding amount is greater than the federal capitalization grant) will be banked for use in future years.

This action should greatly ease some of the administrative burden on small water systems. Projects exempted from the federal cross-cutters will still need to undergo a CEQA environmental review as explained in a later section. The application package sent to small water system applicants will explain their requirements in detail.

It should be understood, however, that all projects including those exempted from the federal crosscutting requirements are subject to federal anti-discrimination laws including the Civil Rights, Rehabilitation, and Age Discrimination Acts.

4. Project Files

Each funded project will have an official project file containing all relevant documents relating to that project. The official project file will be established and maintained in the District Office. As soon as an initial loan commitment is made, the District will establish the project file based on the project number. ***All documents relating to the project should refer to the official project ID number, which is the system ID number followed by a two-digit number assigned by the District.*** This file will be maintained throughout the construction period and until the loan is fully repaid. The file will contain as a minimum; the loan application, technical review analysis report, financial review analysis report, loan commitment letter, plans and specifications, environmental documents and forms, loan contract, a copy of the amended permit, all correspondence relating to the project, construction inspection reports, and the final project close-out certification. A suggested organization of the project file has been provided to each District office.

IV. PROCESSING FULL APPLICATIONS

1. Processing Procedures

Applicants will be instructed to submit their project loan applications to the District Office. The District should note the date of receipt and enter it into the database. It is anticipated that District staff will be called on for assistance from applicants during the period following the sending out of invitations for applications. These requests may range from answering simple questions to “hands-on” help in actually filling out the

application form. Staff should provide as much assistance as possible given the resources available to the District.

In providing assistance to small water systems, District staff may assist the system in describing the problem and identifying potential alternatives. However, staff should generally avoid making a specific recommendation as to which alternative should be implemented in order to avoid compromising the Department's enforcement capability should that become necessary at a later date. Staff can also assist the applicant in developing the necessary environmental analysis and documentation and the financial (revenue/expenditure) program.

Districts should encourage the submittal of "complete" applications and discourage applicants from submitting partial or incomplete applications. Applicants have been informed that applications will be processed on a "first come first served" basis, therefore, there may be a tendency to submit an incomplete application in order to get in line early. ***It should be made clear to applicants that an application will not be considered as received until it is complete***. Therefore, nothing will be gained by the intentional submission of a partial application unless the applicant simply wants to get an informal opinion from staff on a specific aspect of the project.

Applications must be submitted on the forms provided by the Department. Separate documents may be attached to the form as appropriate. The application form may be copied and reproduced by the applicant if desired.

In many cases, an initial meeting with the applicant and their consultants can be very beneficial to both the applicant and the Department. During this meeting, questions can be answered, environmental issues and needed documentation discussed, and various aspects of the proposed project clarified. Districts are encouraged to initiate such meetings where appropriate. Staff specialists from headquarters will initiate or attend such meetings only at the request of the District.

2. Determination of Completeness

The first step to be taken by the District upon receiving an application and recording the date is to assign a project engineer to the project. To the extent possible, the assigned project engineer should retain responsibility for the project until construction is completed. The next step is to determine if the application is considered to be complete enough to begin the detailed technical and financial reviews. The review of the application for completeness should be done as soon as possible and must be completed no later than 30 calendar days after receipt. During the review for completeness, staff is not expected to make any judgments as to the quality of the material but simply determine if the applicant has addressed all of the things that need to be covered or included in the application. For most projects, this review should not take more a few hours. Each District Office has been provided with a "completeness" checklist form, which is useful in conducting this preliminary review. The checklist is also included under Appendix C.

a. Construction Loan Applications

In making the determination of completeness for applications for construction loans (this includes local match projects), staff should use the following checklist and verify that the following questions have been addressed:

(1). General Information

- Have all of the general information blanks (e.g. name, address, project number, phone number, contact person, system ID no.) been filled out?

- Is the applicant a community water system or a nonprofit non-community water system? If nonprofit status is claimed, is there an IRS nonprofit ID number? The type of system indicated on the form should be verified and should be consistent with the system classification designated on the water supply permit and the Department's database.

- Have they been issued a water supply permit? Only irrigation districts that fall under the new definition of water systems (constructed conveyances) do not need to have a permit. ***If the applicant does not have a water supply permit, one will have to be issued before the Notice of Application Acceptance will be issued***.

- Has the applicant included a copy of a resolution from the governing body (if one exists) designating its "Authorized Representative" who is authorized to sign documents and represent the water system relative to the SRF loan program?

- Is the type of ownership clearly indicated (e.g. sole owner, partnership, corporation, special district, governmental agency)? If the ownership includes a leased arrangement, are the terms of the lease spelled out?

- Has the applicant demonstrated that they have the legal authority to enter into a long-term debt with the State? Has the application been approved by the governing board of the system (for certain types of systems)?

- Has the applicant indicated the type of financial assistance requested (e.g. planning loan, construction loan, refinancing, or local match)? The proper application form must be used. If a local match is requested, has the applicant included a resolution from the governing board pledging to provide the required 20% local matching payments into the State SRF Fund?

- Is the application signed by a responsible person that represents the water system (e.g. superintendent, manager, city official, Director of Public Works, owner, association president)?

(2). Managerial Information

- Has the applicant included information substantiating their claimed water rights?

- Does the application include a map showing the service area as well as the physical layout and features of the water system including the location of proposed construction? For purposes of the SRF program, the service area of a water system is not necessarily their legal boundary but the area that is actually being served drinking water.

(3). Technical Information

- Has the problem been described adequately with supporting documentation where necessary? Is the problem being addressed in the application the same as that described in the pre-application? Are there other problems being addressed that should not be a part of this application (if uncertain, this can wait until the detailed technical review)?

- Does the preliminary engineering report contain the following?

  - An identification and evaluation (including cost estimates) of alternative solutions
  - An evaluation of possible consolidation if the system serves less than 10,000 persons
  - A description of the proposed project or selected solution to the problem(s)
  - A conceptual project design (including design capacities of major components)
  - An analysis of the anticipated useful life of major components of the project
  - A preliminary analysis of projected growth (including current and projected water demand) and the amount of growth to be included in the project.
  - A map or description showing the current service area and any proposed changes as a result of the project.
  - A proposed design and construction schedule. **Note**: If the applicant is requesting reimbursement for prior construction, has the applicant shown the actual construction start date?

- A cost breakdown of the proposed project including cost of eligible and ineligible items
- Information establishing the current number of persons served by the water system

- Does the application include complete documentation for CEQA and NEPA-like compliance as applicable (see Appendix D-Environmental Review Process Guidelines – Table 1) If CEQA has not been completed, does the application include a completed copy of the Department's "Schedule of Dates for Compliance with CEQA and NEPA-like Requirements" form (included in Appendix D). If the applicant is a privately owned water system and the Department will be the lead agency, was the Safe Drinking Water State Revolving Fund Environmental Information Form filled out and submitted? ***An application cannot be considered to be complete unless it contains either: (1) a schedule for CEQA and NEPA-like compliance; (2) final environmental documentation; or (3) a completed Environmental Information Form (if the Department will be the lead agency***.

- Based on the proposed project description, does the project, in general, appear to be eligible for funding? A final decision on eligibility will be made following the technical review of the application.

(4). Financial Information

- Has the five-year revenue/expenditure report form been fully filled out?

- Has the applicant included a breakdown of current and projected (assuming the project is funded) consumer water rates?

- Has the applicant identified the proposed method of repayment of the loan? Does there appear to be a dedicated revenue source for repayments?

- Does the estimated project cost (SRF portion only) fall under the maximum loan amounts set forth in the Intended Use Plan (if not, the applicant must be contacted).

- If other funding sources (e.g. RCAC, HUD, RUS, HCD) will also be used, have these sources and the amounts been identified?

- Has the applicant described how unfunded portions (if identified in the application) of the project (e.g. ineligible items) will be funded?

- Does the application contain financial statements covering the past 3 years of operation?

As soon as the application has been determined to be complete, the District should notify the applicant (using a standardized letter), enter the date of determination into the database, and send a copy of the application (that portion containing the financial information etc.) to DWR. If the missing information has no bearing on DWR's financial determinations, the District should go ahead and forward a copy of the application to DWR. This will allow DWR more time to conduct the financial evaluation. If the applicant is an investor owned utility, a copy of the completed application should be sent to the Public Utilities Commission (PUC) with a request that they provide any comments on the project to DWR. This will alert the PUC to the proposed project and hopefully will initiate the PUC approval process.

b. Planning Loan Application

Considerably less information is needed to process a planning loan since the primary purpose of such a loan is to determine the best means of solving a problem. The following guidelines should be used in determining if a planning loan application is complete:

(1). General

These requirements are the same as those spelled out for long-term construction loans.

(2). Managerial

- The application should contain a map showing the service area of the system and should indicate the number of consumers served.

- If known, the application should indicate the name of the person or company that will be conducting the planning study.

(3). Technical

- Has the problem been adequately described with supporting documentation where necessary? Is the stated problem proposed to be studied the same as that described in the pre-application?

- Will the study also address unrelated problems that may not be eligible?

- Does the application contain a proposed schedule for completion of the study and submission of the planning report to the District?

(4). Financial

These requirements are the same as that spelled out for long-term construction loans except that the applicant does not need to identify how ineligible portions of the project will be funded.

c. Loan Refinancing Applications

(1). General

These requirements are the same as those spelled out for long-term construction loans except that the owner of the system must be a city, town, county or special district.

Does the application contain documentation demonstrating that the construction was initiated after July 1, 1993?

(2). Managerial

These requirements are the same as those spelled out for long-term construction loans.

(3). Technical

- Has the problem that was solved by the construction been described adequately with supporting documentation where necessary? Is the problem being addressed in the application the same as that described in the pre-application?

- Is there an engineering report included containing the following?

  - A description of the constructed project
  - Project design information including plans and specifications
  - An analysis of the anticipated useful life of major components of the project
  - An analysis of projected growth (including current and projected water demand for some projects) and the amount of growth provided for in the project.
  - A map or description showing the current service area and any changes in the service area resulting from the project.
  - A cost breakdown of the key components of the project including cost of eligible and ineligible items
  - Information establishing the current number of persons served by the water system

- Does the application include CEQA documentation for the constructed project? Unlike loans for new construction projects, the CEQA process must be completed before the application can be processed. Unless exempted, were NEPA requirements complied with (this question can be referred to the Environmental Review Unit at headquarters)?

- Based on the project description, does the project, in general, appear to be eligible for funding? A final decision on eligibility will be made following the technical review of the application.

- Have the detailed plans and specifications, including as-built drawings, been submitted? These will have to be reviewed and approved before the application can be approved.

(4). Financial

- Has the five-year revenue/expenditure report form been fully filled out?

- Has the applicant included a breakdown of current consumer water rates?

- Has the applicant identified the proposed method of repayment of the loan? Does there appear to be a dedicated revenue source for repayments? Revenue will be considered "dedicated" when the applicant passes an ordinance or a resolution committing a source of funds for repayment. A copy of the resolution or ordinance must be included in the application.

- Does the estimated project cost (SRF portion only) fall under the maximum loan amounts set forth in the Intended Use Plan (if not, the applicant must be contacted).

- If other funding sources (e.g. RCAC, HUD, RUS, HCD) will also be used, have these sources and the amounts been identified?

- Has the applicant provided information on the existing debt including remaining balance, repayment period etc.?

As soon as the application for refinancing is determined to be complete, the entire application should be forwarded to DWR along with the name of the project engineer assigned to the project. The date of the determination should be recorded in the database. If Districts are uncertain as to the sufficiency of financial information contained in the application, they should forward the package to DWR for analysis.

3. Technical Review of Applications

As soon as a project application has been determined to be complete and forwarded to DWR, a technical analysis should commence***. A technical review and completion of a project Technical Report is required regardless of the type of financing requested.*** Whereas the completeness review merely verified if certain types of information had been included, the detailed technical review analyzes that information for sufficiency and technical adequacy. All of the elements listed under "technical" in the completeness review must be analyzed in detail. The technical review forms the basis for making some of the necessary findings required by law in order to fund a project. In conducting the technical review of a project application, staff may run into an issue requiring a policy decision or an interpretation. Questions such as these should be referred to the SRF Program Manager. If the Program Manager deems it appropriate, the issue will be referred to the SRF Policy Committee for discussion and resolution.

a. Construction Loan Applications

For typical long-term construction loans, the technical review must consist of the following elements:

(1). Eligible Projects

One of the key functions of the technical review is to determine what portions of the project are eligible for funding. The project eligibility criteria set forth in the SRF regulations will be used to govern SRF project eligibility. In general, only project facilities that are integral to and necessary to solve the problem for which the project was ranked are considered eligible. Project facilities that are related to other problems (including those that may be ranked lower on the project priority list) are not considered to be eligible. With the exception of excess capacity for growth, project components or unit processes are intended to be fully eligible or ineligible.

The construction bids and the construction contract must separate eligible and ineligible items so that the Department can determine the eligible share of the total project cost. Costs of project components that are partially ineligible due to excess growth should be expressed on a percentage basis. For example, the eligible versus ineligible costs of a $1,000,000 treatment facility that has 20% of its design capacity devoted to excess growth, should be expressed as $800,000 eligible cost (80%) and $200,000 as ineligible cost (20%). The USEPA criteria should be used as the reference for eligibility, however, some of the USEPA criteria are described in more detail below to provide additional guidance.

Treatment facilities. All costs associated with the installation of treatment facilities are eligible including monitoring equipment, process control systems, back-up reliability equipment, and start-up costs. With respect to the purchase of land upon which to locate a treatment plant, only that land which is necessary to accommodate the treatment facilities is eligible (including reasonable administration and laboratory building space

directly related to the operation of the treatment facilities). Land whose purpose is to provide a buffer zone around the plant, land for public parking (employee parking is okay), or land reserved for future expansion is ineligible. The cost of preparing an operations manual to operate the plant is eligible, however all ongoing operation and maintenance costs are ineligible.

Treatment for removal of iron and manganese may be eligible in certain circumstances. For example, if a new well is being drilled (to solve a source water problem) that contains iron and/or manganese exceeding the secondary standard, the cost of adding iron and manganese treatment would be eligible only if the District determines that the well cannot be used unless such treatment is provided.

Water sources. Costs of replacing wells or other water sources (if necessary to comply with drinking water requirements) are eligible including drilling costs, equipment, diversionary structures, structures to protect the quality of the source water, and purchase of source capacity in another water system. Purchase of watershed land, is not an eligible cost under SRF loans but are eligible under the SWPP loans. In the case of a new well, land that is needed to provide the minimum set-back distances required in the Waterworks standards is eligible. For projects in priority class E, costs of installing water meters as a water conservation measure can be considered eligible project costs if they are a necessary part of the solution to the problem.

Consolidation. The costs of evaluating the feasibility of consolidation or restructuring are eligible project costs whether or not this alternative is selected. Physical consolidation should be evaluated as an alternative for most construction projects. However, ownership consolidation or contract operation should also be evaluated as a means of overcoming TMF deficiencies. The cost of completing this type of consolidation, including buy-in fees, capacity charges, legal fees for preparation of documents etc. are generally eligible items.

Pipelines and water mains. These system elements are eligible as separate projects in several of the priority classes. Certain pipelines, including rights-of-way, can also be eligible project components in other categories such as treatment or source water. With respect to treatment facilities or source water facilities, pipelines that are integral to the project and necessary in order for the approved project to function properly are eligible to be included in that particular project. For example, a pipeline to connect a new well to a distribution system can be included as a project component of a new well. Similarly, pipelines that need to be enlarged in order to provide the needed hydraulic capacity for the new source are also eligible. ***Pipelines that have no direct relationship to the specific problem being addressed by the project cannot be included in that project and must be covered under a separate project application***. In all cases, pipelines to connect consumer premises to a water main (house laterals) are not eligible.

TMF deficiencies. Most of the costs of implementing measures needed to comply with TMF requirements are eligible costs. These include conducting capacity/water demand analyses, technical evaluations, costs of restructuring, and the development of operations

plans. The cost of hiring or training a certified operator, however, is not eligible. SRF funds cannot be used to establish a reserve or equipment replacement fund.

Environmental costs. Costs associated with the preparation of CEQA documents are eligible. Cost of implementing environmental mitigation measures identified in the CEQA document for the selected project alternative may be eligible for SRF financing.

Fire protection: Equipment and additional capacity whose purpose is to provide for fire protection as required by local fire codes is eligible as long as it is incidental to the facilities being constructed. Project components whose primary purpose is to provide fire protection are not eligible. For example, if a new distribution system is being constructed, the cost of including fire hydrants would be an eligible incidental cost. Many project components (particularly pipelines) will have additional fire flow capacity included beyond that needed for drinking water purposes. The inclusion of this additional fire flow capacity (only if required by local fire codes) is eligible as long as the additional fire flow capacity does not exceed the capacity needed for drinking water purposes by more than 100 percent. ***If the capacity needed for fire flow is more than double the needed drinking water capacity, the purpose of the project component will be deemed to be "primarily for fire flow" and will thus be ineligible.***

Costs of refinancing. In the case of refinance projects, any costs associated with obtaining the refinance (e.g. bond counsel cost, escrow costs, and any prepayment penalties) are not eligible and must be borne by the applicant. Only previously eligible costs ***that are included in the remaining balance*** of the indebtedness are eligible. With respect to reimbursement projects, the cost of obtaining interim financing is an eligible cost.

Backflow prevention devices. Backflow prevention devices are only eligible if the installation of such devices is necessary or required to allow the project (e.g. a water main) to be operated and if the responsibility for installation of such device rests with the water utility and not a specific user.

Ineligible items. Ineligible items include all construction change orders (except those ordered by the Department) and claims resulting from such change orders, motor vehicles used for employee or material transportation, decorative items (such as art work, sculptures, reflective ponds, fountains, etc.), extended warranties for equipment, insurance cost (except for construction insurance), and all other items not included in the construction contract. ***Projects to extend an existing distribution system to serve residences with private wells (even if those wells are contaminated) are not eligible***.

(2). Engineering Report

The project engineering report does not have to follow any specific format but must address all of the elements described below (SWPP project applications do not need to address sub-items (c), (f), and (g)). Reports that have been prepared for other purposes,

that address some or all of the elements, may be submitted as part of the application. The engineering report is not required to be prepared by a professional engineer. However, applicants should be strongly urged to utilize a qualified engineer to prepare the report if possible. This has several advantages for the applicant and the Department. It will, for example, greatly speed up and simplify the review of the application. Assumptions, calculations, and design parameters are more readily acceptable and less likely to be challenged if developed by a knowledgeable water systems engineer.

(a). Problem

Unless the problem has been adequately described and documented elsewhere in the application it needs to be done so here. The problem that the proposed project is supposed to solve should be the one described on the pre-application that led to the project's ranking. ***The key here is to assure that additional problems or items have not been included that are unrelated to the primary problem***. There may be a tendency, in a few cases, to use a high-ranking problem as a basis for obtaining funding to address other lower priority or unrelated problems. If only the primary problem is being addressed there should be no concern with this aspect of the application.

Unless the District is personally familiar with the current compliance situation of the water system, ***staff should verify the nature of the problem and whether or not the problem still exists***. It may well have been several years since the problem was ranked on the priority list and conditions may have changed.

As pointed out earlier, in some instances it may be acceptable to combine projects to solve several problems with the same application. If the problem projects are all within the fundable list and relate to the same water system, they can be combined and addressed with one application. If project elements are integral to the primary project, they can also be included and addressed. For example, if the project consisted of a new well, the piping necessary to connect the well to the distribution system, is essential to the project (without it, the well could not be operated) and can, therefore, be included. Also, some items that are not essential to the primary project could be included if: (1) the cost is minor compared to the primary project (< 25% of the total project cost); (2) the secondary problem being addressed is also high priority (priority classes A-G); and (3) solving the secondary problem would cost significantly more if funded as a separate project at a later time. The decision whether or not to include an element as an eligible project component will be made by the District, not the applicant.

(b). Evaluation of Alternatives

All reasonable alternatives should be described and evaluated as to feasibility. For example, if the problem is a contaminated source, alternatives would include a new source, treatment, blending, consolidation, or purchased water from another system.

Alternatives that are obviously not feasible for economic or physical reasons do not have to be evaluated.

In describing alternatives, the report should discuss the feasibility and estimated cost of each alternative. The estimated cost does not have to be broken down but can be expressed in general terms. The basis for the cost estimate, however, needs to be explained. In comparing cost/effectiveness of each alternative, operational and maintenance (O&M) costs over the useful life of the facility should be taken into account in addition to capital cost. The relative effectiveness and reliability in solving the problem should be discussed and the reasons for rejecting the alternative explained. In addition, the anticipated environmental impact of each alternative must be described (in terms of gross impacts) as required by CEQA/NEPA.

Staff should remember that the most "cost-effective" solution does not necessarily mean the "cheapest" solution. If the estimated cost of two or more of the alternatives is reasonably close, other factors (such as long term reliability, ease of operation, or degree of effectiveness) should govern the decision.

If staff feels that a reasonable alternative has not been considered, the applicant should be informed that the application will not be processed further until the additional information is submitted.

(c). Consolidation

The possibility of physically consolidating with an adjacent community water system should be considered as one of the alternatives in many cases and is required for systems serving less than 10,000 persons. Physical consolidation means merging two or more systems into one system with the elimination of the other merged systems as separate public water systems. Consolidation feasibility varies with each situation. The report needs to address possible consolidation only with systems in reasonable proximity to the proposed project. This will require a judgment call on the part of the District and will depend, to a large degree, on the following factors:

- Geography. Physical terrain plays a big part in determining a reasonable distance from an adjacent water system. Five to ten miles might be reasonable in many cases but not if physical obstacles such as a major river or mountain range is in the way. In most cases, this judgment can be left up to the project engineer but the District should question any obvious oversights.

- Viability. The TMF viability of adjacent water systems needs to be taken into account. Connecting to a non-viable system may not solve the problem. In addition to lack of viability, an adjacent water system may not have sufficient water supply to absorb a new system.

- Political. Consolidation obviously cannot be achieved if the adjacent water system refuses to agree to the consolidation. If the report rejects a consolidation

alternative on the basis of refusal, some type of written documentation confirming that fact should be included (e.g. a letter from the other water system).

If a consolidation alternative is feasible, would cost less than the selected and would be equally as effective (including reliability) in resolving the problem on a long-term basis, it should be regarded as the most "cost-effective" solution. ***The Department cannot require the systems to consolidate but the law requires the Department to fund only the most cost-effective solution. The Department could, therefore, refuse a loan unless this alternative is implemented.***

TMF criteria (as discussed in a later section) could also be a significant factor in evaluating consolidation. In this case, consolidation could be funded (even though it may cost more than other alternatives) if consolidation was the only way the TMF deficiencies of the applicant could be resolved.

Evaluation of consolidation as an alternative is mandatory for applicants that serve less than 10,000 persons (including all non-community water systems). Systems serving more than 10,000 persons will not be required to consider this option unless the Department specifically requests that this option be considered.

(d). Project Description

The selected alternative project should be fully described. Each component or unit process, as well as related equipment, should be described as to the necessity, function, size, and project relationship of the component. The report should explain the basis for and the justification for selecting specific unit processes (e.g. selecting membrane filters over gravity filters or using ozone vs. chlorination). The useful life of the key system component (the component that makes up the largest cost factor) of the project should be estimated. Staff should consider whether this estimate appears reasonable.

The report should describe how the proposed project would solve the stated problem(s) and the expected results. Again, the reasonableness of these expectations should be considered in light of similar results elsewhere.

(e). Conceptual Project Design

The engineering report should include a conceptual or preliminary project design. Any assumptions used, design criteria, estimated flow rates etc. should be listed and described. Any reasonable methods may be used to estimate flow, water demand, unit capacities etc. including existing records, comparison with similar water systems, use of AWWA or Ten-State standards. Any criteria or assumptions that appear to be out-of-line with departmental experiences that are not adequately justified should be questioned.

A conceptual project layout drawing or sketch showing the relationship of proposed project components, unit processes, or equipment should be included. How the new facilities will relate to existing facilities should be shown.

A map or drawing needs to be included in the report that shows the location of key facilities of the existing system (e.g. sources, treatment units, reservoirs, and primary distribution mains) and the proposed location of new facilities. If the purchase of land will be included in the application for funding, the size, location, and purpose of each parcel must be shown or described. Unless shown elsewhere, the map also needs to clearly delineate the service area of the water system.

(f). Water Rights

All projects must document or describe their current and projected water rights. Other projects that include expansion or replacement of the existing source should also document their water right if this may be an issue. If the water system is (or plans to) extracting groundwater from a groundwater basin that is not adjudicated or otherwise restricted, there is no need to establish a water "right". In this case, the applicant only needs to substantiate that the groundwater basin is capable of sustaining the planned pumping extraction. If, however, the water is (or is planned to be) extracted from an adjudicated groundwater basin, the applicant must demonstrate approval from the water master to extract groundwater in the quantities planned before the application can be approved.

Water systems that are diverting, or plan to divert, water from surface sources must describe, and in some cases substantiate, their right to divert such water. Staff can accept a certification from the applicant if the applicant's claim to the surface water is a riparian right. In order to substantiate a water right claimed pursuant to a water right permit, the applicant must submit a copy of the water right permit issued by the Water Resources Control Board. If the permit has been applied for but not yet issued, a copy of the permit application should be submitted. In this case, staff should check with the Water Rights Division of the State Water Resources Control Board to determine the likelihood of the permit being granted.

Systems that rely or plan to rely on contracted or purchased water from another entity (e.g. State Water Project, Bureau of Reclamation, wholesaler, or another water system) must include a copy of a signed agreement with the other agency. The agreement must indicate the amount of water that the water system is entitled to and the conditions of entitlement (e.g. available in wet years only?)

(g). Growth and Water Demand

The Department is prohibited by law from funding expected growth included in a project beyond that amount set forth in Section 116760.20 (j) H&S Code. In essence, growth is limited to 10% above that amount or capacity needed to serve existing water demand at peak flow. In addition, federal law makes ineligible any project whose purpose is "primarily to serve future growth. This is interpreted by the Department to mean excess capacity that is more than double the capacity needed to serve existing water demand. The applicant needs to address several things in order to comply with this provision of the law.

First of all, the applicant needs to establish the existing (based on the date of submission of the application) water demand. For projects that have already commenced or completed construction (refinancing or reimbursement projects) the existing water demand should be determined as of the date the construction started. This demand should be based on the peak daily demand experienced by the water system during recent periods of highest daily use (e.g. during the past five years). Where available, this should be based on actual records of water usage. Where such records do not exist (for example in systems that do not meter water consumption), the applicant must calculate approximate peak daily demand based on annual use, number and type of consumers etc. using reasonable criteria. The methods of calculation and the assumptions used must be described. Staff should review this aspect of the application to assure that the expressed current water demand is reasonable. In determining existing water demand, water delivered to another public water system under an existing contract should be included. The allowable amount of growth for funding purposes would then be the current peak water demand plus 10 percent.

The second step in this process is for the applicant to estimate the growth in water demand anticipated over the next ten years in the water system. ***If this additional growth in water demand exceeds the current water demand by more than 10%, the applicant will need to indicate how the additional capacity needed to serve the demand in excess of the 10% allowable increment will be addressed.***

The third step in the process is for the applicant to determine the anticipated capacity or size of system components, unit processes, water sources, and equipment that will be used during the design phase of the project. The project engineer may use any of several methods or criteria to determine the capacity or size of these project components (waterworks standards, previously Department approved design criteria such as filter flow rates, AWWA criteria, or Ten-States standards). The assumptions and criteria used to size the units, as well as their basis, must be clearly indicated. Staff should review these criteria for reasonableness.

In determining the size of certain items of equipment such as water mains, minimum sizes set forth in the Department's waterworks standards (and other applicable standards and local ordinances) should be taken into account. For example, even though a two-inch water main might be sufficient to serve existing users, the waterworks standards require a

minimum water main of four inches. Therefore, the size needed to serve the existing users would be four-inch mains. Since the District will be reviewing the plans and specifications for water mains, the waterworks standards section relating to minimum size of pipe for extended mains (namely 6 or 8 inches) do not apply. Generally, staff does not have to be overly concerned about growth and capacity if the proposed water mains are 6 inches in diameter or less.

If the proposed capacity or size of any of the components of the proposed project exceed the design capacity, needed to serve existing water demand plus 10%, the additional capacity that will be constructed must be clearly indicated. As indicated earlier, the eligible fundable portion of a specific unit process for over-designed components will be based strictly on a pro-rata percentage. For example, if a $50,000 clarifier contains 20% excess capacity (above the allowable 10%), 80% or $40,000 would be the fundable amount for the clarifier. An incremental cost method will not be allowed. If the project contains one or more components that the District has ruled ineligible because they are over-designed by 200% or more, this is okay as long as the aggregate cost total of these over-designed components does not exceed 50% of the total eligible cost of the project. If this should happen, the entire project must be declared ineligible.

Unless the applicant is prepared to pay for any additional excess growth capacity from a source other than SRF funds, the project must either be scaled down or the application rejected. Applicants should be encouraged, however, to provide for the anticipated growth in water demand expected over the next 10 years rather than build a project that will be inadequate in a few short years. ***However, any project that proposes to construct additional capacity more than double the capacity needed to serve existing water demand must be declared ineligible (even if the applicant is willing to pay for the excess capacity).***

Growth restrictions should be applied only to major project components and not to minor items such as valves or internal piping. Allowances for future expansion (e.g. pipe stub-outs, valve arrangements) are okay.

(h). Costs and Scheduling

In most cases, the cost estimates included in the pre-application forms were rough estimates. It is expected that the full application will refine those estimates in order to issue the Notice of Application Acceptance. In developing the cost estimates for the project, the applicant must break the total cost estimate down into various project elements. As a minimum, the application should show the anticipated costs of the following:

- Planning, preliminary engineering, and application preparation
- Design and engineering costs
- Construction costs broken down by
  - Major project components
  - Excess growth

  - Construction management and contingencies
  - Any ineligible items included in the project
- Legal and administrative cost
- Other

(i). Cost Impact on Consumers

The applicant is required to submit their water rate structure for the current and past two years. In addition, the applicant is required to calculate the "average" current water rate charged to residential customers as well as the projected impact of the project on the average residential rate. This information will be used for a variety of purposes by NWR (including possible grants) and the PUC. Districts should review the information for the following:

- Was the method used to determine the "average" residential water rate reasonable?
- Does the rate structure or the calculation methods clearly distinguish between residential rates and commercial or industrial rates?
- Does the projected project cost impact show the amount of the cost of the project to be allocated to residential vs. commercial or industrial users?
- If there is a possibility that the applicant may be designated as a disadvantaged community, Districts should make sure that the project cost impact burden is divided between residential and commercial or industrial users in a manner similar to current water rates.

(j). Construction Schedule

The application should also include a proposed schedule for project completion. This should include the time needed for preparation and submission of plans and specifications (from the time a loan commitment is received), completion of financing and preparation of construction bids (after approval of plans and specifications and execution of the loan contract), and completion of construction. ***Applicants should be reminded that construction must be completed within 3 years from when the loan is executed***.

In reviewing the cost estimates and construction schedules, staff should determine if they appear reasonable. If the schedule appears excessive, staff should negotiate a shorter time schedule or recommend a loan commitment condition that includes a shorter time frame. Unless the cost estimates appear to be way out of line, staff should accept the estimates of the applicant unless the applicant is a disadvantaged community. Since disadvantaged communities are potentially eligible for grants, a closer evaluation and comparison of costs should be conducted. Justification should be required for cost estimates that appear unreasonable. This applies, in particular, to non-construction costs such as engineering and planning. The contingency guidelines used by the SWRB can be used by Districts as rough guidelines.

b. Planning Loan Applications

A technical review of an application for a planning loan does not require the in-depth analysis indicated for construction loans. Engineering reports or CEQA documents, for example, are not required. Similarly, none of the findings described above are needed. Financial information will be required in order for DWR to determine if the planning loan can be repaid. District staff, however, may want to place conditions in the planning loan to assure that certain types of deficiencies are addressed. For example, during the course of a previous sanitary survey of the water system, specific TMF deficiencies may have been identified. In this case, staff would want to include a loan condition that these deficiencies be addressed as part of the planning process (e.g. ownership consolidation or contract operation). A technical assessment of the existing system is also an appropriate requirement to be placed into a planning loan where such assessments are lacking in order to meet TMF requirements.

All planning loans should contain a schedule for completion and a condition requiring that a draft copy of the planning report be submitted to the District for review and comment before the report is finalized. Release of the final payment will be withheld until this report is received. In certain cases, the District may wish to require a progress report by a specified date. In submitting each claim for payment, the loan recipient is required to indicate the percentage completion of the project. Districts can use this as a guide to evaluate progress.

c. Reimbursement for Prior Construction Applications

Construction applications that include reimbursement of prior construction are similar to construction loans (see discussion in Chapter I). The District, upon receiving an application from a water system where construction has already started, should process the application in the same manner and applying the same criteria as any other project application. Review of plans and specifications, as well as construction bids, will be reviewed in a similar manner. Applicants who intend to proceed with construction and seek reimbursement should be made aware of this fact. Applicants should be forewarned to assure themselves of compliance with eligibility criteria and compliance with federal cross-cutter requirements if they want to be reasonably assured of reimbursement approval later. Although not required, Districts should encourage applicants to consult with the District regarding project design, growth and other eligibility restrictions, and environmental considerations early in the process. At their discretion the applicant may also want to have the District review plans and specifications before entering into construction contracts.

All elements of the engineering report, with the exception of subsection (e) must be complied with. Since construction has already commenced, it is expected that detailed plans and specifications would be submitted in lieu of conceptual designs. Again, only that portion of the project that complies with the growth limitations set forth by law are

eligible for reimbursement. Applicants must also have complied with the environmental requirements of CEQA and (if applicable) NEPA. These elements must be reviewed by the District in the same manner as construction loan applications. ***All of the findings required for construction loans must also be made for reimbursement loans.***

Regardless of when an applicant begins construction after receiving a letter of invitation, the applicant must submit a full project application to the Department during the funding cycle for which the invitation was received. Failure to do so will result in the project being by-passed which would thus make the project ineligible for reimbursement consideration.

As soon as the District has completed its review of the planning or reimbursement loan application, it should complete a technical report with its findings and recommendations and follow the same procedure as for construction loans.

4. Environmental Review and Documentation

a. General

All applicants for funding (including those that are exempt from federal crosscutting authorities) must undergo an environmental review that complies with the California Environmental Quality Act (CEQA). As part of the "equivalency" process approved by the USEPA, water systems that serve more than 1,000 service connections must also comply with the National Environmental Quality Act (NEPA). To comply with NEPA, the USEPA has established specific "NEPA-like" requirements that are included in the Operating Agreement with the Department. Accordingly, applicants seeking SRF funding will (unless exempted by the Department under the "equivalency" criteria) be subject to the NEPA-like requirements. Rather than repeat the environmental requirements for SRF applicants here, staff are directed to the Environmental Review Process Guidelines that are attached as Appendix D.

In general, the CEQA process will be conducted in a parallel but separate process with the technical review of the application. All of the environmental reviews for CEQA and NEPA will be conducted by the Environmental Review Unit (ERU) in headquarters. The Unit will also be responsible for obtaining comments from federal agencies pursuant to the Operating Agreement. ***The Districts' role in reviewing the environmental portion of the application, therefore, is to assure that the application includes one of the following:***

- ***Complete documentation of CEQA and NEPA-like compliance***
- ***The Department's "Schedule of Dates for Compliance with CEQA and NEPA-like Requirements" form that appears to contain reasonable dates***

- ***The Department's "SDWSRF Environmental Information Form***

It is important that the District request environmental clearance from the ERU when environmental documentation is received or when the application is determined to be complete (whichever comes first). The Environmental Document Transmittal/Clearance Request Form (included in Appendix D) should be used when requesting environmental clearance or transmitting environmental documents.

District staff should make sure that the Technical Report contains a recommended schedule for CEQA/NEPA compliance where applicable in order to include these dates in the Notice of Application Acceptance. Any environmental documents that are available should be submitted to the ERU as soon as they are received. Short-term planning loans do not need any environmental assessment.

In a few instances involving private water systems, the Department may become the lead agency. Even though the applicant may be a private water system, it is possible that another agency such as the county planning department may be the lead agency. If the District is unsure it should contact the ERU and discuss the project situation. If it is determined that the Department will be the lead agency, the District should assure that the applicant fills out the Environmental Information Form and submits it along with the application or as soon thereafter as possible.

As stated in the regulations, construction project applicants do not have to have completed the environmental review process at the time of application but must do so prior to execution of a loan contract. The only projects that must have completed all environmental reviews before the application can be approved are refinancing projects. Some applicants, however, (particularly those who may be seeking some reimbursement for prior construction) may have already completed the CEQA process. In these cases, the ERU will be asked to review the documents and procedures to determine their acceptability. If some additional work needs to be done, the Notice of Application Acceptance will still be issued with the condition that this work be completed and approved before loan execution. In any case, the ERU will need to provide environmental clearance for all projects (with the exception of planning studies) prior to execution of a loan contract. ***Again, districts should use the Environmental Document Transmittal form (also included in Appendix D) to transmit any environmental documents received with the application to the ERU.***

The environmental review process is somewhat complicated and for some projects, such as refinancing projects, it may be the chief obstacle to obtaining SRF funding. ***District staff should not hesitate to consult with the ERU or set up environmental consultation meetings with the applicant early in the process.***

5. Review of Technical, Managerial, and Financial Capacity

Federal law requires that all recipients of SRF funding must meet technical, managerial, and financial (TMF) criteria established by the State. Funding cannot be provided to any water system that the Department determines does not have, or cannot develop, adequate TMF capacity. Some of the TMF criteria must be met at the time of application, whereas additional time can be allowed to come into compliance with other requirements. The TMF Guidance Manual describes the requirements and indicates which of those requirements must be met by SRF applicants. The TMF requirements are broken into three categories; technical, managerial, and financial. The requirements, as well as the criteria for evaluation, are described in the TMF Guidance Manual that has been provided to each District and are, therefore, not repeated here.

The determination of TMF capability is based on the TMF assessment process which is conducted separately from the SRF application review process. ***The District is required to conduct a TMF assessment (using the Assessment Form and procedure laid out in the TMF Guidance Manual) on each water system that indicated that it intends to submit an SRF application (as indicated on the Statement of intent submitted in response to a letter of invitation).*** This evaluation and assessment must be completed before the review and approval of the SRF application is completed. ***The Technical Project Report must reflect the findings of the TMF assessment and contain the schedule for submission of any required TMF documents.*** This schedule (even though it may be included in new permit conditions) will be included as a condition of the Notice of Application Acceptance.

Many applicants, particularly small systems, are not expected to meet all of the TMF criteria at the time of application. However, this does not mean that these systems cannot receive funding. Systems that do not meet the TMF criteria at the time of SRF application will be required to do within a specified time frame as a condition of receiving the funds. The SRF funds can also be used to develop or improve the TMF capacity of the system.

As part of its technical and capacity assistance set-aside programs, the Department is prepared to assist small water systems in overcoming some TMF deficiencies. This assistance may be provided directly by Department staff, by LPAs or contractors. When requested, District staff is expected to assist small systems in preparing source capacity/water demand analyses, technical evaluations, and operation plans. ***Applications from water systems that cannot meet the TMF criteria, even given time and financial as well as technical assistance, will be denied pursuant to federal requirements***.

6. Preparation of the Project Report

After conducting the technical and environmental review of the project application, the law requires that certain findings be made before the project can be approved for funding.

The information submitted in the application, when viewed collectively, should be sufficient to enable staff to draw the appropriate conclusions. Following review of the application, district staff must complete a Technical Project Report. This report reflects the staff engineer's analysis of the project application and will be the basis for any actions taken by the Department. A recommended format and additional guidance for preparation of the Technical Project Report for a construction or refinancing project is included in Appendix E.

The project report will consist of several parts including:

- The staff engineer's analysis (e.g. deficiencies, concerns, observations, judgments, comments) of the project.
- The development of formal "findings" as described below.
- The negotiation and development of specific schedules for anything that needs to be done prior to loan execution including CEQA and NEPA compliance, plans & specs submittal, and construction.
- The recommended loan conditions to be included in the Notice of Application Acceptance.

The project report must be signed by the staff project engineer and the District engineer. The Regional Engineer must also review and concur with the project report. The project report, when signed, will be considered as "public" information and may be shared with the applicant or the LPA as appropriate. A copy does not have to be sent to the PUC unless they request it. This report, along with the financial review report from DWR, will form the basis for a decision by headquarters whether or not to fund the project.

Specifically, the law requires that before a project can be funded, the Department must address and make a positive finding with respect to each of the following questions:

(a) Is it an eligible project and what are the total eligible costs? It is the District that determines the final eligible cost of the project. If the eligible cost is significantly less than the applicant's request, both the applicant and DWR should be informed immediately since it may affect the applicant's plans (they will have to find additional funding or scale down the project) and it may affect DWR's analysis.

(b) Will the project, when completed, bring the water system into compliance with drinking water requirements insofar as the particular contaminant or problem that the project is intended to solve? This does not mean that will the project bring the system into compliance with all drinking water requirements, but simply will the project solve the problem for which the project is being proposed? Is anything missing that needs to be included in the project in order to make this finding?

(c) Is this project necessary to enable the applicant to meet drinking water standards? We need to be assured that the problem cannot be solved by improved operation or other nonstructural changes.

(d) Is the project consistent with adopted countywide plans, if any? The District can determine this by any applicable means.

(e) Is the project being funded the most cost effective means of solving the designated problem? This does not necessarily mean the least cost project. Consider also long term effectiveness, reliability, ease of operation, etc.

(f) Does the project fall within the maximum funding limits? If not, can the applicant complete the project using other supplemental funds?

(g) If the water system has other violations or problems that are on the priority list, does it have a specific plan for resolving those problems? Does this particular project address the most serious of the multiple problems?

(h) Does the water system have adequate TMF capability or is there a reasonable possibility that it could achieve an adequate level given additional time and possible assistance? We should give the benefit of the doubt to the water system on this one.

(i) Will the project be able to comply with CEQA and NEPA in a reasonable time frame?

These findings should be addressed in the project report in the form of conclusions. The project report should contain a specific overall recommendation with respect to funding and should contain any special loan conditions the District feels should be included in the loan commitment. As indicated, the project report must designate the amount of project funding that the District has determined to be eligible for SRF assistance. If some elements, including growth beyond the allowable 10%, have been determined by the District to be ineligible, the applicant should be notified. ***The project report should be completed as soon as possible but no later than 150 days of receipt of the completed application***. As soon as the project report is completed, a copy should be forwarded to Headquarters and DWR. As indicated earlier, if the District, at any time, determines that the project does not qualify for funding, it should immediately notify DWR and Headquarters. DWR will continue to process any application (with respect to financial aspects) unless it is notified by the District to discontinue further analysis or processing.

Applicants for a planning loan will need to prepare a "mini project report". This report should address the following:

- Verify that the applicant is an eligible water system.

- Verify that the problem proposed to be studied is the problem that resulted in the project ranking and that the problem still exists.

- Describe the scope of the planned study and assure that the study will not address unrelated items.

- Describe the public water system (type of system, number of connections, compliance history, permit status etc.)

- The technical report should include a time schedule for completion of the study and submission of the report to the District.

7. Financial Review

a. Processing Procedure

The financial review of all applications (with the exception of the long-term TMF viability of the system) will be conducted by DWR and its financial contractor. This includes the following elements:

- The credit worthiness of the applicant
- The ability to repay the loan
- The financial accounting and records of the applicant (local governmental recipients must comply with the provisions of the Single Audit Act as it applies to the receipt of Federal financial assistance if the applicant is a large water system)
- Disadvantaged community determinations
- The Revenue Program of the applicant
- Applicable median household income of the service area (as designated by the District)
- The Target Service Charge applicable to the applicant

The review of the application from a financial standpoint will be conducted at the same time that the technical review is being conducted. ***It is important, therefore, that district staff maintains effective communication with DWR during the processing period***. In order to reduce the time for processing applications, the District must send a copy of the application to the designated person in DWR as soon as the application is deemed to be complete. The District should attempt to assure that the required financial information is included in the application, however, the District should not hold up the application if it is unsure whether the financial information is sufficiently adequate. If DWR, in reviewing the application, determines that more information or additional clarification is needed, it will contact the applicant directly and obtain such information. If DWR has any questions with respect to the technical aspects of the project, it will contact the District's project engineer.

As soon as DWR has completed its review of the application, it will prepare a financial report (similar to the technical report prepared by the District). This report will summarize the financial analysis of the application, make the required findings, and contain recommendations with respect to the loan. In preparing the financial report, DWR will determine whether or not the applicant is a disadvantaged community, the applicants ability to repay the loan (up to 150% of the eligible project cost), the loan

repayment conditions, the amount of subsidy if any (for disadvantaged communities), and the applicable interest rate to be applied.

If DWR determines that the amount of loan funding that the applicant is capable of repaying is less than the requested amount in the application, the maximum repayment capability will be established. In these types of cases, the SRF program will still make the best offer that can reasonably be made and will allow the applicant the opportunity to combine the SRF funding with funds from another source for the balance of the project. The Notice of Application, in addition to making the best offer, will establish a time frame during which the applicant must identify a source for the remaining funds needed to complete the project before a funding agreement will be executed. Should the additional funds not materialize by the deadline, the SRF funding offer will be withdrawn.

Similar to the Districts, if at any time prior to completion of the processing of the application, DWR determines that the project cannot be funded for financial reasons, it will immediately inform the District and DHS Headquarters. As soon as the financial report is completed, a copy will be sent to DHS Headquarters and the District***. Similar to the technical report, the financial review and report must be completed within 150 days from when the completed application is received.***

b. Affordability Criteria

It should be remembered that all applications are for loans. An applicant cannot apply for a grant. The determination whether or not financial assistance includes a partial grant will not be made until the financial review has been completed. The applicant's ability to repay the loan will, to a large extent, depend upon the "affordability" of the project. Affordability also comes into play in determining how much, if any, of a disadvantaged community's project may be in the form of a grant. Affordability is a measure of a community's ability to pay (not "willingness to pay") and is usually related to household income. Affordability will be generally determined by evaluating the impact of the cost of the project on consumer water rates including a comparison of average household user charges for water against median household income.

As part of the SRF application, the applicant must present a variety of financial information. Included in this, is information establishing the current average household water charge and describing the basis for the determinations (e.g. operational costs, debt service, existing O&M cost)? Also needed are the estimated project cost and the projected average household water charge (including the new estimated O&M charges etc.) that will result when the project is completed. In developing the projected annual average household water charge, no assumptions as to SRF grant assistance should be made although grants expected to be received from other sources may be used. Water systems should use the current SRF subsidized interest rate (zero percent should be used by disadvantaged communities) in calculating the projected consumer cost. The projected cost impact should be based upon the existing number of service connections. If grant

assistance will be received from sources other than SRF, this should be noted and explained.

Ability to repay a loan (which is a different calculation than determining the amount of grant funds if any) is based on the ***total cost impact*** of the project. The total cost impact of the project should include all of the projected costs that will be imposed on residential consumers including ineligible project costs, operation and maintenance cost, and any other planned cost increases. The percentage of project costs that will be borne by residential vs. nonresidential users should be shown. All assumptions and calculations should be described in the analysis. This information will be used to help determine loan repayment capability.

If the applicant is (or thinks they may be) a disadvantaged community, then a second projection is needed for the purposes of calculating the amount of grant funds, if any. In this projection, ***only the eligible cost of the project*** (including O&M costs related to the eligible portion of the project) should be used for the projection. This projection should show the impact on the average current residential rates without consideration of other potential rate increases. ***No other cost impacts should be included.***

The first step in the process of determining affordability is to establish the current "average household" user charge for the water system. This will be determined by the water system applicant (as part of the engineering report) and reviewed for reasonableness by the District and DWR. The user charge should include the direct water rate fee charged to the household as well as any other fees or charges that support the water service such as parcel fees, special water taxes, or water surcharges. Since many water systems use a tiered rate structure for residential users, it is necessary to establish a "typical" water use for a residence in the service area of the water system.

The second part of the affordability analysis is to determine the median household income applicable to the service area of the applicant. The income data used to determine median household income should be that which most accurately reflects the income of the residential customers in a water system's service area. This can come from the most recent Census or from a current independent income survey conducted by a qualified organization. DWR's financial contractor will decide which data will be used. Whichever method is used, the MHI should be adjusted to the current year for inflation through the use of the Consumer Price Index. The MHI used must, however, represent ***all*** of the service area of the water system, not just a portion of it. ***The MHI to be used in determining affordability will be established by DWR's financial contractor based on the service area of the water system as determined by the District.***

After the affordability information described above has been submitted and evaluated, the results will be compared to a "target consumer rate" that will be used for the SRF program. The target consumer rate is an indication of the maximum amount of household income that a typical household can be expected to pay for water service. This is expressed as a percentage of median household income. Studies have indicated that households with higher incomes can reasonably pay a higher percentage of that income

for water service. For the SRF program, the Department has established the target consumer rate as 1.5% of median household income for household incomes that are less than the statewide median household income and 2.0% for household incomes that are greater than the statewide median household income. Generally, water service for communities will not be considered to be affordable if the average consumer water service charge exceeds the target consumer rate.

The target consumer rate will also be a significant factor in determining a community's ability to repay a loan and is used to establish the maximum amount of additional subsidy to a disadvantaged community. ***The projected cost impact of the eligible portion of the project cost compared to the TCR will be the only criteria used to determine the amount of grant funding that may be offered to a disadvantaged community***. For community water systems, use of the target consumer rate will be only one of the criteria (with consideration of the community's overall fiscal situation as another criteria) to be used to determine the loan repayment capability. An application for a loan will not be denied simply on the fact that the projected water rate will exceed the TCR. ***The Department will not require an applicant to demonstrate that a specific cost increase (resulting from construction of a project) is acceptable to the water system's consumers even if that resultant cost exceeds the target consumer rate***. Since noncommunity water systems generally do not have consumer water charges, the criteria to be used to determine repayment capability will be the financial capacity of the system and the organization responsible for its operation. The maximum amount of grant funds that may be awarded to a disadvantaged noncommunity system will be the difference between loan repayment capability and the eligible cost of the project (up to the maximums set forth in the SRF regulations).

Since disadvantaged communities, by definition, fall below the statewide MHI, the 1.5% target service charge will apply automatically. The projected cost impact of the eligible portion of the project cost compared to the target consumer rate will be the only criteria used to determine the amount of grant funding that may be offered to a disadvantaged community. If the projected average household water rate for a disadvantaged community project (using the zero interest rate with a 20 year repayment period) results in a water charge that is higher than 1.5% of the MHI established for that water system, the system will be eligible for additional financial assistance. The additional assistance that will be offered first will be partial forgiveness of some of the principle of the loan (i.e. grant). The amount of the grant will be that needed to reduce the projected consumer rate to an amount equal to the target consumer rate for the service area of the water system (up to the maximum amounts set forth in the SRF regulations). This grant will be subject to the maximums described in section I (5) for disadvantaged communities. If the maximum grant amount that can be offered is still insufficient to bring the projected consumer rate down to the target service charge, the repayment period may be extended up to a maximum of 30 years to further reduce the projected consumer rate. If this is still insufficient, the project will be considered to be nonviable and the application will be denied unless the applicant identifies another source of funding.

After the maximum amount of grant funding is determined pursuant to the above process, DWR will evaluate the applicant's ability to repay the remaining project's cost in the form of a loan. If the applicant cannot afford to repay the applicant's share of the project cost, the applicant must seek another funding source or reduce the scope of the project. If this is not possible, then the application will be denied on the basis of nonviability.

V. PRELIMINARY LOAN COMMITMENT

1. Notice of Application Acceptance

Upon receipt of the Technical Project Report from the District and the Financial Report from DWR, headquarters will review the recommendations and make a decision whether or not to approve the application. This decision will be made within 30 days of receiving the reports. The process for review and approval of the project application is shown in Figure 3. If the project is deemed to be fundable, headquarters will notify DWR and the District and will designate the fiscal year from which the funding for the project will be derived. DWR will then prepare and execute the Notice of Application Acceptance. The Notice will establish the terms and conditions of the loan, including the applicable interest rate) and will contain any special conditions recommended by the District or DWR. The Notice will be executed within 30 days from Department approval. DWR will send copies of the Notice to DHS headquarters and the District. This process will be followed for all types of financial assistance with the possible exception of planning loans and refinancing loans which may go directly to a loan contract offer.

The interest rate for the loan will be established as of the date of the loan commitment letter. All loan commitment letters executed during a calendar year will carry the same interest rate. Thus loan commitments made on December 31 will likely carry a different interest rate than loans executed on January 1. The interest rate will be 50% of the average interest rate that the State paid on general obligation bonds for the prior calendar year. This interest rate will apply to the entire loan period even though the actual loan contract may not be executed for another year or more. All interest rates are not negotiable since they are fixed by statute.

The loan repayment period set forth in the Notice of Application Acceptance will generally be 20 years (5 years for short-term planning loans) unless the District has determined that the useful life of the project is less than 20 years. In this case, the useful life will constitute the loan repayment period. In some cases, such as small loan amounts, DWR may recommend a shorter repayment period. As described earlier, disadvantaged communities, in some cases, may be granted up to a 30-year repayment period. ***The repayment period commences from the date of project completion as determined by the District.***

Issuance of the Notice of Application Acceptance will result in a reservation of funds in that amount and will thus constitute obligation of the federal funds. The Notice will be used to determine compliance with the commitment obligation deadlines established by the USEPA. As required by law, the Notice of Application Acceptance will include a number of provisions that the applicant must agree to in order to receive funding. Also included will be a schedule for completion and submission of plans and specifications and other material needed to execute the loan. ***Within 30 days from the date of execution of the Notice of Application Acceptance, the applicant must sign the commitment letter indicating their acceptance of the terms and verifying their intention and ability to continue with the project pursuant to the schedule.***

Districts have the responsibility for tracking and monitoring of the applicant after the Notice of Application Acceptance has been executed. Progress towards meeting the submission deadline for plans and specifications should be checked periodically. Compliance with any of the special conditions contained in the Notice should also be monitored (e.g. TMF requirements). Particular attention should be paid to those small water systems that need to complete certain TMF elements in compliance with the Notice of Application Acceptance conditions. In some of these cases, the District will need to render assistance to the water system. For example, the Department will indicate that it is willing to assist small water systems in preparing the source capacity/water demand analysis, and/or the operations plan upon their request.

2. Loan Commitments to Projects Involving Consolidation

Consistent with Department policy, the SRF program encourages consolidation of smaller water systems particularly where such consolidation will resolve TMF deficiencies of a smaller system. To the extent possible, the SRF program's intent is to avoid creating any unnecessary obstacles to consolidation and to use the SRF financial assistance program to create incentives for consolidation.

Typically, a consolidation project involves a small water system (either privately or publicly owned) that has a problem ranked on the priority list. The preferred solution to solving the problem generally involves a larger water system taking over the small system. In many cases, this means hooking up the small system to the larger system with the small system ceasing to exist as a separate water system. This ideal solution, however, frequently raises some concerns for the larger water system as well as the SRF program. The larger system is concerned about: (1) maximizing SRF financial benefits for the project (particularly possible grant funding); (2) not assuming responsibility for the smaller system's problems without specific SRF financial assurances; and (3) not assuming health risk liability for the smaller system's consumers before the project improvements are completed.

The Department, on the other hand, has concerns about: (1) the appropriateness or designation of the project applicant; (2) the timing of the takeover, and (3) loan repayment guarantees after the takeover is completed. These issues become more

complicated if grant funds are involved and one of the water systems is a privately owned water system (because grant funds cannot be awarded to a privately owned water system). In most cases, applicants will need to assess the situation and the timing of the takeover in order to determine the maximum financial benefit for the project.

The procedures that the SRF program will use to address these situations are described below. Both loan and grant possibilities are discussed. Staff should remember, however, that in all cases, the initial applicant must be the owner of the small system that has the problem.

a. Takeover of a publicly or privately owned water system by another publicly owned system.

- The applicant must be the small system that has the problem (even though someone else may do all the work, this applicant must sign the application).

- The MHI used to determine disadvantaged status (and possible grant assistance) is based solely on the MHI of the small system. However, if an "assignment" or takeover is completed (as described below) prior to loan execution, the MHI would be based on the full service area of the larger system.

- Loan repayment capability is initially determined based solely on the credit worthiness of the small water system.

- The TMF evaluation and determinations are based solely on the TMF capability of the larger system that will eventually operate the project facilities.

- If the small system can afford to repay its SRF loan obligation, than the loan offer (Notice of Application Acceptance) will be extended to the small system. The actual loan contract will also be executed with the small system (unless the takeover has been completed prior to loan execution in which case the loan contract will be executed with the larger system). The loan offer will include the following conditions:

    - The larger system will be required to agree to assume responsibility for repayment of the loan upon completion of the project.

    - The smaller system will be required to agree to cease operation as a public water system upon completion of the project.

Both water systems will be required to sign the NOAA signifying their acceptance of the proposed terms and conditions.

- If the smaller system is a disadvantaged publicly owned system (based on the MHI of the small system), DWR will determine the potential amount of grant funding that could be awarded to the project based exclusively on the Target Consumer Rate and the projected project cost to the consumers of the small system. If the takeover is completed prior to the execution of the loan/grant contract, the contract (including the grant funds) would be executed with the large water system instead of the small system.

- If the smaller system cannot afford to repay the loan but the larger system is willing to assume the responsibility for the loan then the funds would not be awarded unless and until one of the following occurred:

    - The takeover of the smaller system by the publicly owned system was completed or:

    - The smaller system signed a written agreement with the public system assigning all of its rights and duties under the NOAA to the public system that will be taking over the smaller water system. As soon as this occurs, the larger system is considered to be the "applicant" for the project.

As soon as either of the above have occurred, the loan/grant contract would be executed with the larger publicly owned water system.

The assignment of rights and duties under the NOAA from the smaller system to the larger system may be beneficial to the applicant in many cases. This action basically removes the smaller system from the NOAA and loan contract process. This action allows the larger system to assume control of the project until construction is completed without assuming the actual takeover (and possible liability) of the smaller system until project completion. The possible downside, however, is that as soon as this occurs, the MHI used for all financial calculations is that of the larger system's service area. Therefore, if the smaller system qualifies for disadvantaged status but the larger system would not, it may not be beneficial financially to the smaller system to do such an assignment. The reversed may also be true in a few cases.

Staff should be aware that the current regulations as written do not allow for grants to be made in most situations where the smaller system is a privately owned system. The reason for this is that privately owned systems are not eligible for grants. If an assignment were made as described above, the applicant would become the larger publicly owned system. While this system potentially could receive a grant the grant possibility for the project would be based on the MHI and loan repayment capability of the larger publicly owned system. The possibility of a grant, therefore, would be a

possible, but unlikely scenario. It is currently the intention to amend the regulations to allow for grants to the public agency under these circumstances.

b. Takeover of a small publicly owned water system by a privately owned system.

- The process is essentially the same as outlined above except that if the small publicly owned system is disadvantaged and qualifies for grant assistance, the smaller publicly owned system cannot assign it rights, etc. under the NOAA to the larger private system nor can the takeover be completed prior to the execution of the loan/grant contract and completion of construction of the project. To do so would nullify the possibility of grant assistance (since the contract is now with a privately owned water system).

It is obvious from the above examples that the timing with respect to a takeover of another water system is critical particularly if any grant funding is involved. For purposes of the SRF program, the "takeover" will be considered to be completed as soon as DWR has received a document signed by both water systems committing and binding both water systems to the takeover. The actual takeover can occur as described above at any time during the process, however, in all cases the takeover must be completed no later than 30 days following completion of project construction.

District Offices need to be aware that when a water system is taken over by another system via consolidation, the existing domestic water system permit issued to the system that will be going out of business as a public water system must be withdrawn. Therefore, as soon as the takeover is completed as stated in the above paragraph, the District should notify the smaller system that is permit has been declared null and void as of the effective date of the takeover. This can be the date specified in the written binding agreement or the date specified in the NOAA as the deadline for completion of the takeover.

3. Dispute Resolution

Occasionally, an applicant may disagree with a decision made by a District or DWR. In most cases, the District is expected to meet with the applicant and see if the disagreement can be resolved. Thus if there are expected problems, the District should consider discussing the findings of the Project Technical Report with the applicant. The SRF program does not have any type of formal appeal process. ***However, an applicant may request reconsideration with respect to any decision made by the SRF program. In this case, the applicant must request a reconsideration in writing***. This request should set

forth the facts and the basis for the disagreement and must be sent to the SRF Program Manager.

A written request for reconsideration will not be acted on until the technical report has been received from the District. The request will be reviewed by the SRF Policy Committee. Headquarters will not hold any type of hearing nor will it contact or meet with the applicant. The decision will be based strictly on the information included in the written request. Based on the SRF Committee's determination, the previous decision will be: (1) upheld; (2) revised or overturned; or (3) remanded back to the District or DWR for further evaluation. The applicant will be notified in writing of the Committee's determination by the SRF Program Manager.

Disputes between the SRF program units, District Offices, and/or DWR will be decided by the SRF Program Manager or, if necessary, the SRF Policy Committee.

VI. SUBMISSION OF PLANS AND SPECIFICATIONS

1. Timing and Procedure

Each Notice of Application Acceptance for construction loans will contain a deadline for submission of plans and specifications. This deadline will be determined by the District following completion of the technical review of the application. While there is no statutory time limit for submission of the plans and specifications, it is necessary to avoid delays in commencing projects. An inability to complete the design of a project within a reasonable time is an indication of a lack of "readiness to proceed" (as described earlier in this document) and is, therefore, a basis for revocation of the initial Notice of Application Acceptance.

An applicant may submit the plans and specifications at the same time as the project application if they so choose. This is required for applications seeking reimbursement for construction that has already commenced. This may also be appropriate for smaller relatively simple projects. Should this occur, staff should follow the same procedure insofar as reviewing the application and making the determinations needed. If the plans and specifications are simple and can be reviewed in a short time period, staff can approve them along with the application and notify DWR.

The amount of time needed to complete the design of a project obviously varies with the size and complexity of the project. A significant factor that can also affect the timing is the need to complete the CEQA and NEPA requirements and the arrangements for local financing where this is an integral part of the project. District staff should consult with the applicant and attempt to agree on a reasonable schedule for completion of these tasks. Once a deadline has been established and is included in the Notice of Application Acceptance, it must be adhered to unless the Department has granted an extension in

writing. If an applicant becomes aware that it will not be able to meet the submission deadline, it should request an extension in writing. The request should explain and justify the reasons for missing the deadline and suggest the additional time needed. Extensions should be granted only for justifiable reasons that were beyond the control of the applicant. Extensions should not be granted for inactivity or procrastination on the part of the applicant. Extensions, if granted, should be short term. Extensions should not be granted for failure to secure voter approval of the project or the necessary local financing.

If an applicant fails to submit the required plans and specifications by the deadline and has not received an extension of time, the applicant will be considered to have violated the terms of the Notice of Application Acceptance. Should this occur, the District should immediately notify headquarters. Headquarters will then prepare and send a notice to the applicant revoking the initial Notice of Application Acceptance and withdrawing the initial loan (or grant) offer. This action will be without prejudice, thus allowing the applicant to resubmit a new application after receiving another letter of invitation from the Department during the next funding cycle.

2. Review and Approval

It is not the Department's intent in reviewing plans and specifications to "second-guess" the design engineer. Nor is it the intent to assure that building construction codes and fire codes etc. are being complied with. It is assumed that local building departments will address these issues adequately. There are, however, a variety of important aspects that the Districts need to verify in reviewing the plans.

First, it is important that the District verify that the project design is consistent with the project approved in the original application and that the findings made by the District in the technical report are still valid. If the project is significantly different, some of the findings made during the application review process may need to be evaluated. For example, if the size or capacity of the facility is larger than what was proposed in the original application, the allowable growth factor may need to be recalculated. Does the design alter any of the information submitted earlier (e.g. facilities location map, size of facility, CEQA document, amount of land required)? During the application review process, the District identified any ineligible components. Staff needs to check the final design to assure that no new ineligible items have been added.

One of the key objectives of the design review is for staff to verify that the design complies with the Department's Waterworks Standards. This includes setback distances, allowable materials, pipe sizing, flow meters, backflow prevention etc. Surface water treatment facilities need also to comply with provisions of the Surface Water Treatment Rule. Staff should evaluate the reliability features of the project design. Many of these are spelled out in the Waterworks Standards. The Department does not have design standards for most types of treatment or other facilities. The plans and specifications, however, should indicate the design parameters and assumptions used by the design

engineer. These should be reviewed to assure that no unreasonable parameters were used.

Along with the plans and specifications, the applicant should have submitted a detailed cost breakdown. This breakdown should separate out planning and engineering costs, construction cost, construction management, financing costs, contingency reserve, cost of eligible versus ineligible items etc. A standardized form provided by the Department can be used by the applicant. These costs should be reviewed by staff for reasonableness and compared against the allowable guidelines established for the SRF program. When approved, these costs will be the basis for the amount of the loan contract. Similarly, the applicant should have proposed a construction start-up and completion schedule. This schedule should be reviewed for reasonableness and will become part of the loan contract and the amended permit. The applicant may, if he so chooses, submit a portion of the plans and specifications (perhaps a key treatment component) to the district for evaluation and preliminary approval prior to finalizing the project plans and specifications.

Staff should contact the applicant if there are any problems identified, if any clarifications are needed, if any elements are found to be ineligible, or if any revisions need to be made to the plans during the review of the plans and specifications. When staff is satisfied that the design poses no problems and supports the original project approval, the plans and specifications should be considered to be approved. This determination and the date of approval should be entered into the database.

3. Water Supply Permit Amendment

As soon as the plans and specifications have been approved, the District should prepare an amendment to the water supply permit. This is only required for projects that entail a change or expansion of water source or treatment, construction of new facilities, or consolidation of systems or ownership of systems. A permit amendment is not needed for planning loans. It is expected that a permit amendment will have already been issued for projects seeking reimbursement, however, the issued permit should be reviewed to see if additional amendments may be needed. The amended permit should reflect the special conditions that the District wants to impose on the project but that were not included in the loan commitment or loan contract (or that were included but need to be re-emphasized). This would, for example, include construction schedules, TMF requirements where the system was allowed additional time to comply, and any special treatment or operational requirements.

If the applicant is a public water system that is under an LPA jurisdiction, the District should develop the appropriate permit conditions and forward them to the LPA. The LPA will then issue the amended permit. During the following period of construction, the District or the LPA should monitor compliance with the permit conditions relating to

the loan and, if necessary, request the LPA to take appropriate enforcement action. Time expended by staff on issuing the amended permit for large water systems should be recorded in PICME and billed to the system, small systems will not be billed.

4. Execution of the Loan Contract for Construction Projects

As soon as the plans and specifications have been approved and the District has verified that all of the applicable conditions set forth in the Notice of Application Acceptance have been met, the District should prepare and send a memo to that effect to headquarters and the applicant. The memo should specify the amount of eligible project cost that should be reflected in the loan contract and any special loan conditions that should be included A sample transmittal approval memo has been provided to the Districts for use**.** As soon as the Environmental Review Unit has provided environmental clearance for the project, headquarters will send a notice to DWR to proceed with the execution of the loan contract (see contract execution flow chart). ***The loan contract will also contain a stipulation that the applicants certify (unless they have been exempted by the Department) that they have complied, or will comply, with all of the Federal Cross-Cutter authorities.*** Upon receiving the approval memo from DHS headquarters, DWR will prepare and send the loan contract to the applicant for signature. The applicant will be allowed a maximum of 60 days to sign and return the contract to DWR or risk being bypassed.

It is anticipated that the amount of funding that will be reflected in the loan contract will be different than the estimated amount in the Notice of Application Acceptance (which was a preliminary estimate). This will be the first opportunity for the applicant (or the District) to refine the cost estimate set forth in the Notice of Application Acceptance. The amount of the loan contract may be more or less than the amount committed to in the Notice of Application Acceptance. If the amount is significantly larger than the earlier estimate (more than 50% higher), DWR may need to conduct a new financial evaluation to determine the applicant's ability to repay the larger amount. This decision will be left up to DWR.

As soon as the loan contract is fully executed and the requirements for disbursement of funds have been met, the applicant may submit a reimbursement claim to DWR (and the District) for reimbursement of all eligible costs incurred during the planning, preliminary engineering, and design phase of the project. No reimbursement will be made for costs that have not yet occurred. For reimbursement projects, all of the above costs plus any construction costs incurred to date can be reimbursed in full. Remaining construction costs will be handled in the same manner as new construction projects.

As indicated earlier in this document, some projects will be exempted from compliance with the federal cross cutter requirements. The Department must assure that enough projects comply with the federal cross cutters to equate to the amount of federal funding provided to applicants each year. In the Notice of Application Acceptance and in the

loan contract, the Department will specify to the applicant which federal requirements, if any, are applicable to the applicant.

The applicant has a maximum amount of time of three years to complete construction of the project. This time period commences as soon as the signed contract is received by DWR. ***Similarly, applicants for a planning loan will have a maximum of eighteen months from the time of contract execution to complete the study and to submit invoices for costs incurred for the study***. Any costs incurred after completion of the planning study (unless the Department has granted an extension) are the responsibility of the applicant. The planning study will be deemed to be complete when the District approves the planning report.

After the loan contract has been executed, the District should monitor the progress of the water system with respect to adherence to the construction schedule. Should problems arise that may cause the schedule to be violated, the District should offer appropriate assistance to the water system. For example, there may be questions or concerns about the bidding process and the federal cross cutter requirements that the District may be able to clarify.

VII. PROJECT CONSTRUCTION

1. Project Construction

After the loan contract has been executed, it is expected that the applicant will proceed to construction expeditiously. The first step in this process, in most cases, is for the applicant to seek bids for construction of the project. The Department has not established any specific requirements with respect to the bidding process (other than the federal requirements) and will rely primarily on applicable local or state ordinances. ***For projects involving grant funds, a competitive bidding process will be required unless the Department has granted an exception.*** Municipal or other governmental agencies may use a force account process to conduct the construction in lieu of outside bidding.

The applicant does not need specific approval from the Department to initiate the bidding process. However, the applicant is expected to comply with applicable State bidding requirements and labor laws. The final plans and specifications should be reviewed by the District to make sure the applicable federal cross-cutter provisions (particularly the MBE/WBE "good faith" requirements) have been inserted into the specifications. Whenever grant funds are involved, the District must review and approve the bid process and contractor selection before a construction bid is awarded by the applicant.

The most significant federal cross-cutter that applies to the construction bid process is the MBE/WBE requirements. Under these requirements, all applicants must demonstrate a

good faith effort to provide opportunities to small, disadvantaged, minority, and women owned business enterprises to participate in bidding on contracts and sub-contracts for construction or equipment. The principal mechanism through which the SRF loan recipient will fulfill this requirement is by taking six steps related to providing project information to potential responsible MBE/WBE businesses, documenting their efforts, and providing summary reports on this activity to the Department.

The Department has negotiated MBE/WBE participation goals for the SRF program with the USEPA. It should be noted, however, that the applicants are not required to meet the MBE/WBE goals. They will be responsible only to demonstrate that they have complied with the 6 good faith steps. ***The District's role in this process is to assure that the applicant has addressed these requirements in their project bid specifications and has committed to following the six steps***. Staff should refer to the MBE/WBE Guidance Document that is attached and listed as Appendix F.

Other than providing advice with respect to SRF requirements, the District will not become involved in the bidding process or in resolving bidding disputes. Bid dispute resolution will be the sole responsibility of the loan recipient. ***Projects involving a grant may not proceed to award a construction contract until a written approval to award the construction contract is granted by the District.***

The most significant federal requirement relating to subcontracts that the applicant may enter into relate to the federal MBE/WBE requirements. Each applicant (unless exempted) must go through the six steps outlined in the MBE/WBE guidance document to demonstrate a good faith effort. This applies to construction contracts as well as purchase of equipment. This is perhaps the one aspect of the federal cross-cutters that may be the most confusing (and perhaps intimidating) to applicants. Appendix F is a MBE/WBE guidance document that should be used by staff to help guide applicants. This document may also be provided to applicants if requested.

Any applicant, following the bidding process and selection of the contractor, may submit a request to the District to amend the final loan amount contained in the loan contract based on the construction bids. This will be the final opportunity to amend the loan contract. ***Any increases in the cost of the project following this final amendment will be the responsibility of the loan recipient***. Applicants should be encouraged, therefore, to include a construction contingency (up to 25% of the construction cost) to account for unforeseen cost increases. If a request for an increase in the loan contract is received, the District should evaluate the basis for the increase (it should be consistent with the successful construction bid). If it is deemed to be reasonable, the District should forward the request to DWR with its recommendation for approval. If a funding increase of more than 50% of the executed funding contract amount is requested, the District should consult with DWR before proceeding. Similarly, if the construction bids come in significantly lower than the engineer's estimate, the District should contact the applicant to discuss lowering the loan amount.

2. Project Inspections

The applicant must notify the District when the actual commencement of construction has been initiated. This should be entered into the database. Based on the construction schedule included with the plans and specifications, the District should schedule one or more construction inspections during the course of construction. For relatively simple projects, one mid-point construction inspection (in addition to the final inspection) is sufficient. More complex projects (e.g. construction of a filtration plant) should have at least two inspections. The purpose of these inspections is to verify that the loan recipient is constructing the project in accordance with the approved project as described in the application and the detailed plans and specifications, applicable contract requirements, state drinking water regulations, and the Waterworks standards.

Upon completion of the project, the District must conduct a final inspection. This is important in order to close out the project, allow release of the final loan payment, and set the time for initiation of loan repayments. The date of the inspection (unless there are problems that the contractor must address) will be considered to be the date of completion of construction. Districts should conduct the final inspection as soon as possible after notification by the contractor. ***The final inspection must be completed prior to the facility being placed into operation.*** Again, the primary purpose of the final inspection is to ascertain that the proposed project was constructed in accordance with State requirements and the approved plans and specifications.

State law requires that the construction be completed within 3 years from the date that the loan contract was executed. If, during the course of construction, unforeseen delays are encountered that will prevent the contractor from finishing the project within the three year period, the applicant should request an extension in writing. In reviewing this request, the District should determine if the request is warranted. If so, the District should grant the request in writing (with a copy to DWR) and should establish a new deadline for completion. Any extension must not extend the original deadline beyond five years from the date of execution of the loan contract.

When the final inspection has been completed, the District should fill out the Project Completion Certification form and send a copy to headquarters and DWR. For investor owned utilities, a copy should also be sent to the PUC. For recipients that have not already done so, a copy of the operations plan must be submitted to the District within six months following completion of construction. For short-term planning loans, the project will be certified as completed as soon as the District has received and approved the draft final planning study report. A project completion report is not necessary for refinancing loans but will be needed for reimbursement loans where the construction may not yet be complete.

VIII. Disbursements and Repayments

1. Invoices and Disbursements

Disbursements from the Automated Clearinghouse will be made by DWR upon receipt of invoice claims from the applicant. Claims may be submitted monthly or quarterly at the loan recipient's discretion. Loan recipients will be instructed to submit the claim directly to DWR with a copy to the District office. Upon receipt of a claim, the District should review it for any discrepancies (e.g. inclusion of ineligible items). If a problem is identified, the District should immediately notify DWR and resolve the problem before the invoice is paid. DWR will process the invoice within 10 days unless the District expresses some concern.

Inasmuch as the process for reimbursing claims is somewhat complicated, a flow chart laying out the cash flow process is shown in Appendix G.

Claims can only be submitted for costs that have already been incurred. While contractor costs must have been incurred, it is not necessary for the loan recipient to have actually paid the costs before requesting payment under the loan contract. ***Except for refinancing projects (and possibly some reimbursement projects) all claims for incurred costs must be submitted to DWR within 6 months from the date of project completion***.

The claim must be submitted using the Disbursement Request Form provided by the DWR. A sample copy of this form will be sent to the loan recipient along with the executed loan contract. As indicated earlier, a claim for costs incurred prior to the execution of the loan contract (such as planning, preliminary engineering, or design) may be submitted as soon as the loan contract is executed.

2. Loan Repayments

Loan recipients are required to maintain separate project accounts in accordance with generally accepted government accounting standards. All privately owned community water systems are required to establish a surcharge account in lieu of simply including loan repayment in a general rate base. More specifically, the following records must be maintained:

- Accounts accurately depicting amounts received and expended for the project, including all funds received from the SRF.
- Program income data
- The total cost of the project

Claim invoices must be maintained by the applicant for a period of at least three years after submittal. All other records must be maintained for the life of the loan (e.g. 20 years).

Interest will begin accruing on all loan disbursements as of the date each disbursement is made. A revised repayment schedule will be issued by DWR after the loan recipient submits the final disbursement request. At that point, DWR will prepare a final repayment schedule that includes:

- The interest rate applicable to the life of the loan
- The final amount of the dollars loaned
- Accrued interest
- The final principal amount of the loan due including accrued interest
- A complete amortization table

Loan repayments shall be made semi-annually at mid- and end-of-year as specified by DWR. The first loan repayment will be due on the first semi-annual payment period following the completion of construction as determined by the Department (the date of the final inspection and completion certification by the District). For short-term planning loans, the initial repayment will be due on the first semi-annual due date following the time the District certifies that an acceptable draft report has been received by the District. Repayment of the planning loan can be delayed provided the planning loan recipient has submitted an application for a construction loan prior to the date the initial loan repayment is due.

The loans will be fully amortized no later than 20 years (except for planning loans and some disadvantaged communities) after completion of construction. The amount to be repaid will include the amount loaned plus accrued interest. DWR will normally send a repayment notice 30 days before the repayment due date, but prompt repayment remains the responsibility of the loan recipient.

A penalty of one-tenth of one percent (0.1%) per day on the amount due will be assessed for late repayment. A ten-day grace period will be allowed. However, if the repayment is not received by the end of the grace period, the penalty will be assessed from the repayment due date. Any penalties collected will be deposited into the SRF account to be made available for SRF assistance. Penalties assessed will not change the principal balance of the loan contract. Such penalties will be treated as a separate account in addition to the annual repayment due.

3. Change Orders

Districts must review and approve all construction change orders. Any increase to the total cost of the project resulting from change orders is the responsibility of the applicant. The applicant should include a construction contingency to cover this possibility. Cost increases resulting from project changes ordered by the Department as a result of new requirements are allowable. Cost increases to one component of the project can be offset by savings or cost reductions in other components.

IX. COMPLIANCE AND ENFORCEMENT

It is the District's responsibility to enforce certain provisions of the SRF program and the loan contract. All aspects of the loan contract that relate to technical matters including submission schedules, TMF requirements, completion dates, and any special loan conditions placed into the loan contract at the request of the District, will be enforced by the District. DWR will be responsible for enforcement of the financial aspects of the loan contract including loan repayments, defaults etc.

During the construction period, loan disbursements may be held up pending correction of loan contract violations. Districts are responsible for monitoring compliance with technical conditions of the loan as the project proceeds. Districts should pay particular attention to these compliance requirements as the project nears the 90% completion point. If it is obvious that a loan requirement deadline of project completion will not be met, the District should alert DWR so that payments may be withheld if necessary. Should this occur, staff should meet with the loan recipient and attempt to resolve the problem so that the contractors can receive final payment without undue delay.

Once construction has been completed and final disbursements have been made, conditions of the loan contract must be enforced by other means. The most effective method for enforcement of technical conditions is to include those conditions as part of the amended water supply permit. For example, if the loan required the applicant to conduct a technical evaluation of the system as the basis for a Capital Improvement Plan by a deadline occurring after completion of construction, this condition should be included as a special condition of the water supply permit amendment. In this manner, staff could easily enforce this requirement through the use of citations or compliance orders. ***A citation cannot be issued to a loan recipient simply on the basis of violating a loan condition***